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Vol. II

TRANSCRIPT OF RECORD

(Pages 393 to 680)

Supreme Court of the United States

OCTOBER TERM, 1945

No. 6

AMERICAN POWER & LIGHT COMPANY,
PETITIONER,

vs.

SECURITIES AND EXCHANGE COMMISSION

No. 7

ELECTRIC POWER & LIGHT CORPORATION,
PETITIONER,

vs.

SECURITIES AND EXCHANGE COMMISSION

ON WRITS OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT

PETITIONS FOR CERTIORARI FILED JUNE 16, 1944.

CERTIORARI GRANTED MAY 28, 1945.

VOLUME II.

UNITED STATES CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT.

OCTOBER TERM, 1942.

No. 3823.

AMERICAN POWER & LIGHT COMPANY,
Petitioner,

v.

SECURITIES AND EXCHANGE COMMISSION,
Respondent.

No. 3824.

ELECTRIC POWER & LIGHT CORPORATION *v.* SAME.

PETITIONS FOR REVIEW OF ORDERS OF THE SECURITIES AND EXCHANGE COMMISSION.

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EXHIBITS.

EXHIBIT A.

UNITED STATES OF AMERICA

Before the Securities and Exchange Commission

In the Matter of

American Power & Light Company, *Applicant.*

File No.

APPLICATION UNDER SECTION 11(e) OF PUBLIC UTILITY HOLDING COMPANY ACT OF 1935 BY AMERICAN POWER & LIGHT COMPANY FOR APPROVAL OF PLAN TO ENABLE SAID COMPANY TO COMPLY WITH SUBSECTION (b) OF SECTION 11 OF SAID ACT.

1. The Applicant, the above named American Power & Light Company (American Company), a "registered holding company" under the Public Utility Holding Company Act of 1935 (hereinafter called the "Act"), files herewith, marked Exhibit 1, a plan on behalf of said Company, under Section 11(e) of said Act for divestment of control, securities, or other assets, and for other action by said company to enable said company to comply with subsection (b) of Section 11 of said Act and respectfully requests consideration and approval of said plan by the Securities and Exchange Commission (hereinafter called the "Commission").

2. The Applicant has caused said plan to be prepared, submitted to and approved by its Board of Directors subject to the approval of the Commission and of its stockholders and the filing of the said plan under this application has been authorized and directed by the Board of Directors of the Applicant.

3. Electric Bond and Share Company (Bond and Share) is the "top holding company" in a public utility holding company system under said Act in which the Applicant, Electric Power & Light Corporation (Electric Company) and National Power & Light Company (National Company) are "intermediate holding companies," each having public utility subsidiaries in various states of the United States.

4. On or about February 28, 1940, a proceeding was instituted by this Commission entitled "In the Matter of Electric Bond and Share Company and its subsidiary companies, respondents, File No. 59-3" by the issue of a "Notice of and Order for hearing pursuant to Section 11 (b) (1) of the Public Utility Holding Company Act of 1935." By said notice and order it was charged (paragraph 136) that the holding company system of said Bond and Share is not confined in its operations to that of a single integrated public utility system within the meaning of the Act and to such other businesses as are reasonably incidental or economically necessary or appropriate to the operations of such integrated public utility system.

By the allegations of such notice and order and by the terms of the order, the holding company systems of the Applicant and the other respondents in said proceeding were brought under review and each of said respondents were permitted to include in their answers their claims as to the action which should be required to be taken by any of them to limit their operations so as to meet the requirements of Section 11(b)(1) of the said Act.

Aside from certain motions and the filing of the answer by respondents thereto (including the Applicant) no hearings have been had or further action taken by the Commission under said File No. 59-3.

5. On or about May 9, 1940, the Commission instituted a proceeding against the Applicant herein and other companies in the Bond and Share system entitled "In the Mat-

ter of Electric Bond and Share Company" et al "File No. 59-12" by "Notice of and Order for hearing pursuant to Section 11(b)(2) of the Public Utility Holding Company Act of 1935" in which it was charged (paragraphs 46-47) that "the structure of the holding company system of Electric Bond and Share Company is unduly and unnecessarily complicated", and "voting power is unfairly and inequitably distributed among security holders of said system of said Electric Bond and Share Company".

After certain motions and proceedings not here material, the Commission on June 7, 1940, issued an order limiting the proceedings initially "to the issue of whether it is necessary to discontinue the existence of American Power & Light Company, Electric Power & Light Corporation, National Power & Light Company and American & Foreign Power Company Inc., or any of them, in order to insure that the structure of the holding company system of the Electric Bond and Share Company shall not be unduly or unnecessarily complicated and that voting power shall not be unfairly or inequitably distributed among security holders of such system". By subsequent order dated June 17, 1940, the proceeding was dismissed as to American & Foreign Power Company Inc.

6. Thereafter commencing on June 18, 1940, and subject to various adjournments, from time to time, hearings have been had before an examiner of the Commission under said notice and order (File No. 59-12) as limited by said order of June 7, 1940, and later order, to the above mentioned issues as stated pertaining to the Applicant and to Electric and National Company, and said hearings are still continuing. However the issues in the pending proceedings may be decided, it would doubtless be or become necessary for either the Commission or the Applicant to formulate and present some plan for compliance by the Applicant under Section 11(b) of the Act.

7. In view of the foregoing, but without prejudice to legal and constitutional rights as hereinafter stated, the Applicant has prepared and files herewith the plan above mentioned and presents it herewith for consideration and approval.

8. The plan proposes, in brief:

The present stock capitalization of the Applicant shall be revised to consist of a single class of common stock. This stock shall be issued to present Preferred Stockholders ($6) and to present $5 Preferred Stockholders on the basis of one share of new common stock (or a convenient multiple or fraction of such share) for each presently outstanding share of said Preferred Stocks, and an additional share of new common stock (or a convenient multiple or fraction thereof) for each $100 of arrearages on said present Preferred Stocks, calculated to the effective date of the plan. Whether any differential shall be allowed in favor of the Preferred Stock ($6) over the $5 Preferred Stock, in addition to the greater number of shares resulting from larger dividend arrearages, is left for determination pursuant to this application. The present Common Stock is to be awarded such participation in the new common stock as may be determined to be fair and equitable. The exact amount of differential, if any, to be awarded the Preferred Stock ($6) over the $5 Preferred Stock and the amount of participation to be awarded the Common Stock will be determined as work on the plan progresses.

The funded debt of the Applicant is to be discharged or otherwise provided for from available cash on hand and the sale or exchange of securities in the Applicant's portfolio.

Upon the completion of the recapitalization and dis-

charge or provision for the funded debt, the Applicant will select and retain, subject to the approval of this Commission, from its present systems such "integrated public-utility system", or systems, as it may be entitled to retain under the Public Utility Holding Company Act of 1935 and will distribute the stocks of the remaining subsidiaries to the holders of the new common stock in proportion to their respective holdings, either directly or through the creation of such new companies, or combinations of existing companies, as may be determined to be desirable and practicable. As a result the present stockholders will have certificates for shares or fractional shares of stock in the recapitalized Applicant and in the other companies, not sold or exchanged, proportionate to their present holdings as reflected in the reclassified common stock of the Applicant.

The right is reserved to propose complete liquidation of American Company by amendment to the plan.

The plan is not to become effective except upon approval of this Commission and the vote of 90% of the Applicant's Preferred Stock ($6), of 90% of its $5 Preferred Stock and of a majority of its Common Stock.

The Applicant is distributing to its stockholders a letter with reference to the plan and the filing of the plan with this Commission, a copy of which letter is filed herewith marked Exhibit 2.

9. There are no applicable provisions of the charter, by-laws or similar documents of American Company relating to the right of the person signing and filing this application to take such action on behalf of said Company. Such authorizations are dependent on resolutions of the Board of Directors of American Company adopted at a meeting of

said Board of Directors held on July 23, 1941, a copy of which is attached hereto as Exhibit 3.

10. The Company hereby requests that the original, a duplicate original, or a photo copy of this application and any and all amendments thereto, whether executed hereafter or concurrently herewith, be offered in evidence on behalf of said Company and be received in evidence as an exhibit of said Company in any proceeding before the Commission, or any officer thereof or any Trial Examiner designated thereby, and that the verification of such application and any amendment thereto be considered as if the persons signing such verification had personally appeared and testified orally, under oath, duly administered, in any such proceeding to the statements contained in such verification.

11. The Company hereby agrees that whenever any document constituting part of the official files of the Commission is offered or received in evidence, it is offered or received subject to the reservation that if at any future time a transcript of the record is called for, either in connection with a petition for review or otherwise, copies may be furnished in lieu of the originals.

12. Neither this application nor the plan filed herewith nor the acceptance of or reliance upon any order, rule or regulation, or of any order or direction of the Commission, shall be deemed to be a waiver of constitutional or legal rights of the Company or any of its associate or affiliate companies, all of which are hereby expressly reserved. The Company also expressly reserves and refuses to waive any constitutional rights and expressly reserves the right to contest the constitutionality of any provision of the Act as applied to it, or of any rule, regulation or order now or hereafter made or purported to be made thereunder and specifically reserves various constitutional and legal rights and questions reserved in its motions, answers and proceed-

ings filed and taken in connection with the said notice and orders of the Commission above mentioned under Sections 11(b)(1) and 11(b)(2) of the Act hereinbefore mentioned and designated as File Nos. 59-3 and 59-12, respectively. If this reservation and refusal to waive any constitutional or legal right shall be held invalid or inoperative by any court of competent jurisdiction, this application shall be deemed to have been void and of no effect from any date specified in written notice given to the Commission by or on behalf of the Company.

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the Company set forth below caused this instrument to be duly executed on its behalf by its authorized officers on this the 23rd day of July, 1941.

AMERICAN POWER & LIGHT COMPANY
By Howard L. Aller President

ATTEST:
D. W. Jack Secretary
(Seal)

SIMPSON THACHER & BARTLETT
By John F. MacLane A member of said firm, 120 Broadway, New York City

REID & PRIEST
By Frank A. Reid A member of said firm, 2 Rector Street, New York City
Counsel.

State of New York }
County of New York } ss.

The undersigned being duly sworn deposes and says that he has duly executed the attached instrument for and on behalf of the Company named herein; that he is the President of such Company; and that all action by stockholders, directors and other bodies necessary to authorize deponent

to execute and file such instrument has been taken. Deponent further says that he is familiar with such instrument and the transactions referred to therein, and that to the best of his knowledge, information and belief the statements made in such instrument are true.

HOWARD L. ALLER

Subscribed and sworn to before me at New York, N. Y., this 23rd day of July, 1941.

(Seal) Florence O. Demo

EXHIBIT 1.

PLAN PROPOSED BY AMERICAN POWER & LIGHT COMPANY PURSUANT TO SECTION 11 (e) OF THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

SUMMARY

(1) The Plan proposes compliance by American Power & Light Company (American Company) with both Sections 11(b)(1) and 11(b)(2) of the Public Utility Holding Company Act of 1935.

(2) The stock capital of American Company shall be reclassified into a single class of stock based upon the outstanding Preferred Stock and arrearages, calculated to the effective date of the Plan, computed at a value of one share of present Preferred for each $100 of arrearages, additional units being provided for satisfaction of any differential in claims between the $6 and $5 Preferred Stock, and such allowance as may be determined to be equitable for Common Stock participation.

(3) American Company will use available cash and other assets as may be required to discharge its debt obligations.

(4) The present system of American Company comprises six integrated public utility systems consisting of the Northwestern group, the Texas group, the Kansas-

Nebraska group, the Minnesota-Superior group, Florida Power & Light Company and Central Arizona Light and Power Company. American Company claims the right to elect any two of these groups as the integrated systems which it is permitted to retain under the Public Utility Holding Company Act.

(5) A "Northwestern holding company" shall be created or selected which shall acquire American Company's holdings in The Montana Power Company, The Washington Water Power Company, Pacific Power & Light Company, Northwestern Electric Company and Portland Gas & Coke Company, except such thereof as may be sold to public bodies, unless control of these companies is retained by American Company.

(6) A "Texas company" shall be created or selected which shall acquire American Company's holdings in, or the properties of, Texas Power & Light Company, Texas Electric Service Company, Texas Public Utilities Corporation and New Mexico Electric Service Company, unless control of these companies is retained by American Company.

(7) A "Kansas-Nebraska company" shall be created or selected which shall acquire American Company's holdings in, or the properties of, Nebraska Power Company and Kansas Gas and Electric Company, unless control of these companies is retained by American Company.

(8) Minnesota Power & Light Company shall acquire the stock of Northern Power Company and Superior Water, Light and Power Company (which shall first be merged into a single company), operating all of these properties as an integrated system in northern Minnesota and Wisconsin, and shall also acquire the stock and obligations of Topeka Land Company, unless control of these companies is retained by American Company.

(9) The remaining companies of the system will maintain their present corporate organization and operating status.

(10) There is reserved for later consideration the possible acquisition and inclusion within the systems referred to in the next preceding paragraphs (5) to (9) inclusive of additional properties which may be properly integrated with the properties in such groups in compliance with the Public Utility Holding Company Act of 1935 and the right is reserved to distribute directly the stocks of any existing subsidiaries which are not retained by American Company in lieu of selecting or creating the systems referred to in said paragraphs.

(11) Subject to sales or exchanges of properties in satisfaction of debt or for outstanding Preferred Stock, there shall be distributed to the stockholders of American Company shares or fractional shares of the reorganized American Company, which will continue to own the stocks of the companies in the systems which it is permitted, and elects, to retain, and shares or fractional shares of each of the remaining companies in the present system (or the company or companies created or selected to hold any of such stocks or to own the properties of any of such companies) in proportion to their reclassified stock units in the reorganized American Company, with the result that American Company will remain a holding company with a single class of stock only as to the companies which it is permitted to retain in its holding company system, and the remaining companies will be divorced from the American Company system and the stocks will pass into the direct ownership of American Company's present stockholders, subject to the effect of the reclassification of shares. Right is reserved to propose by amendment complete liquidation of American Company.

(12) The number of shares of common stock of newly created companies or existing subsidiaries shall be stated or restated into such number of shares as may avoid excessive transfer taxes and permit convenient distribution to holders of the reclassified American Company stock.

(13) Right is reserved to submit proposal for reclassification of American Company stock to stockholders prior to submission of other parts of the Plan, if the Securities and Exchange Commission approves such reclassification and reserves decision on other parts of the Plan.

(14) The Plan is subject to the approval of the Commission and of a stock vote of 90% of the $6 Preferred Stock, of 90% of the $5 Preferred Stock and of a majority of Common Stock of American Company.

American Power & Light Company

Plan for Divestment of Control of Securities, Limitation of Operations and Other Action to Comply with the Provisions of Subsection (b) of Section 11 of the Public Utility Holding Company Act of 1935.

I.

Scope and Authorization of Plan

1. The purpose of this Plan is to offer compliance with Section 11(b) of the Public Utility Holding Company Act of 1935. This section contains two subdivisions designated (b) (1) and (b) (2), which may be referred to herein as the "Integration" and "Simplification" provisions, respectively. These subsections are quoted in the margin,[1] as

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[1] "(b) It shall be the duty of the Commission, as soon as practicable after January 1, 1938:

(1) To require by order, after notice and opportunity for hearing, that each registered holding company, and each subsidiary company thereof, shall take such action as the Commission shall find necessary to limit the operations of the holding-company system of which such company is a part to a single integrated public-utility system, and to such other businesses as are reasonably incidental, or economically necessary or appropriate to the operations of such integrated public-utility system: Provided, however, that the Commission shall permit a registered holding company to continue to control one or more additional integrated public-utility systems, if, after notice and opportunity for hearing, it finds that —

is also the definition of "Integrated Public Utility System" contained in Section 2(a) (29) of the Act.[2]

(A) Each of such additional systems cannot be operated as an independent system without the loss of substantial economies which can be secured by the retention of control by such holding company of such system;

(B) All of such additional systems are located in one State, or in adjoining States, or in a contiguous foreign country; and

(C) The continued combination of such systems under the control of such holding company is not so large (considering the state of the art and the area or region affected) as to impair the advantages of localized management, efficient operation, or the effectiveness of regulation.

The Commission may permit as reasonably incidental, or economically necessary or appropriate to the operations of one or more integrated public-utility systems the retention of an interest in any business (other than the business of a public-utility company as such) which the Commission shall find necessary or appropriate in the public interest or for the protection of investors or consumers and not detrimental to the proper functioning of such system or systems.

(2) To require by order, after notice and opportunity for hearing, that each registered holding company, and each subsidiary company thereof, shall take such steps as the Commission shall find necessary to ensure that the corporate structure or continued existence of any company in the holding-company system does not unduly or unnecessarily complicate the structure, or unfairly or inequitably distribute voting power among security holders, of such holding-company system. In carrying out the provisions of this paragraph the Commission shall require each registered holding company (and any company in the same holding-company system with such holding company) to take such action as the Commission shall find necessary in order that such holding company shall cease to be a holding company with respect to each of its subsidiary companies which itself has a subsidiary company which is a holding company. Except for the purpose of fairly and equitably distributing voting power among the security holders of such company, nothing in this paragraph shall authorize the Commission to require any change in the corporate structure or existence of any company which is not a holding company, or of any company whose principal business is that of a public-utility company.''

[2] ''(29) 'Integrated public-utility system' means—

(A) As applied to electric utility companies, a system consisting of one or more units of generating plants and/or transmission lines and/or distributing facilities, whose utility assets, whether owned by one or more electric utility companies, are physically interconnected or capable of physical interconnection and which under nor-

2. The Plan has been prepared by executives of the American Power & Light Company with the assistance and advice of Counsel, and submitted to, and considered and approved by the Board of Directors, who have authorized and directed it to be submitted to the Securities and Exchange Commission in accordance with Section 11(e) of the Act.[3]

3. If approved by the Securities and Exchange Commission, either as presented or with such modifications as the Board of Directors may accept, the Plan shall be submitted to the stockholders of American Power & Light Company, and of any subsidiary whose organization may be so affected by the Plan as to require approval of stockholders, and the Plan shall not become effective until approved by such vote of stockholders as may be required by law, charter or by-law, or confirmed by such court action as may be appropriate and necessary under the Public Utility Holding Company Act, or otherwise required by law. In so far as said Plan may require the consent or approval of the Public Utilities Commission or similar regulatory body of any State or the Federal Power Commission or other federal

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mal conditions may be economically operated as a single interconnected and coordinated system, confined in its operations to a single area or region, in one or more States, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operations, and the effectiveness of regulation; * * *"

[3] "Any registered holding company * * * may * * * submit a plan to the Commission for the divestment of control, securities, or other assets, or for other action by such company or any subsidiary company thereof for the purpose of enabling such company or any subsidiary company thereof to comply with the provisions of subsection (b). If, after notice and opportunity for hearing, the Commission shall find such plan, as submitted or as modified, necessary to effectuate the provisions of subsection (b) and fair and equitable to the persons affected by such plan, the Commission shall make an order approving such plan; and the Commission, at the request of the company, may apply to a court, in accordance with the provisions of subsection (f) of section 18, to enforce and carry out the terms and provisions of such plan."

or state governmental agency, such part of the Plan as may require such consent or approval shall not become effective until the required consent or approval shall be obtained or until any other specific legal requirements shall be satisfied.

4. Submission of this Plan is subject to reservation of all constitutional and legal rights of American Power & Light Company and its security holders, and of any subsidiary affected thereby and its security holders.

II.

Corporate and Capital Structure of American Power & Light Company

5. American Power & Light Company (hereinafter called "American Company") is a corporation organized under the laws of the State of Maine. It is a registered holding company within the meaning of the Public Utility Holding Company Act of 1935 (hereinafter called the "Act"), and is a subsidiary of Electric Bond and Share Company (hereinafter called "Bond and Share"), which is likewise a registered holding company.

6. The capitalization of American Company is as follows:

Type of Security	Amount Outstanding	Principal Amount Par or Stated Value
Funded Debt....	$46,261,000.00	$46,261,000.00
Preferred Stock ($6), Cumulative, No Par	793,581.2 shares*	79,300,926.00
$5 Preferred Stock, Cumulative, No Par.....	978,444 shares	97,844,400.00
Common Stock No Par.....	3,008,511.54 shares**	37,434,351.29

* Including scrip equivalent to 26.2 shares.

** Excluding 5,301 shares reacquired, and including scrip equivalent to 2,013.54 shares.

7. Each share of stock (excluding scrip) of each of the above classes is entitled to one vote with respect to ordinary business of the corporation. The Preferred Stock ($6) and the $5 Preferred Stock rank *pari passu* as to dividends and in liquidation, and have a preference in liquidation over the Common Stock of $100 per share plus unpaid cumulative dividends. As of December 31, 1940 unpaid cumulative dividends in arrears on the two classes of preferred stock totaled approximately $32,701,400, representing more than 3 years' requirements on each class. No dividends have been paid on the Common Stock since June 1, 1932.

8. Bond and Share owns 51,840 shares of said $5 Preferred Stock, being 5.30% of the total amount of $5 Preferred Stock outstanding, and 937,221 shares of Common Stock, being approximately 31% of the total amount of Common Stock outstanding.

9. The following are subsidiary companies of said American Company and are public utility companies within the meaning of the Act.

Name	State of Organization	State in which Company Operates	Nature of Business
Central Arizona Light and Power Company	Arizona	Arizona	Electric and Gas
Florida Power & Light Company	Florida	Florida	Electric and Gas
Kansas Gas and Electric Company	West Virginia	Kansas and Missouri	Electric
Minnesota Power & Light Company	Minnesota	Minnesota	Electric and Steam Heating
The Montana Power Company	New Jersey	Montana and Idaho	Electric, Gas, Steam Heating and Water
Nebraska Power Company	Maine	Nebraska and Iowa	Electric
New Mexico Electric Service Company	New Mexico	New Mexico	Electric
Northern Power Company	Wisconsin	Wisconsin	Electric
Northwestern Electric Company	Washington	Oregon and Washington	Electric and Steam Heating

Name	State of Organization	State in which Company Operates	Nature of Business
Pacific Power & Light Company	Maine	Washington and Oregon	Registered holding company, Electric, Steam Heating and Water
*Inland Power & Light Company	Oregon	Washington	Electric
Portland Gas & Coke Company	Oregon	Oregon and Washington	Gas
Superior Water, Light and Power Company	Wisconsin	Wisconsin	Electric, Gas and Water
Texas Electric Service Company	Texas	Texas	Electric
Texas Power & Light Company	Texas	Texas	Electric
Texas Public Utilities Corporation	Texas	Texas	Electric, Ice and Water
The Washington Water Power Company	Washington	Washington and Idaho	Electric, Water and Steam Heating

* Inland Power & Light Company is a wholly owned subsidiary company of Pacific Power & Light Company.

10. The following are subsidiary companies of said American Company and are not public utility companies within the meaning of the Act, but are engaged in the business respectively set forth opposite their names:

Name	State of Organization	Nature of Business
Consumers Water Company	Florida	Water
Glacier Production Company	New Jersey	Natural gas production and transmission; production and sale of crude oil, gasoline and butane, refinery operation
Big Bend Transit Company	Washington	Inactive (real estate)
Inland Empire Refineries, Inc.	Nevada	Oil Refining

Moen-Leick Industries, Inc.	Washington	Distribution of gasoline and other petroleum products
Chief Petroleum Company, Inc.	Washington	Distribution of gasoline and other petroleum products

Name	State of Organization	Nature of Business
Great Falls Townsite Company	Montana	Hotel and real estate
Yakima Credit Corporation	Washington	Financing fruit marketing
Pike Rapids Power Company (The)	Minnesota	Inactive
R. S. & C. Irrigation Company, Inc.	Washington	Irrigation
Topeka Land Company	Minnesota	Inactive (real estate)
Utilities Land Company	Florida	Real estate
Columbia Highlands Company	Washington	Inactive (real estate)
Limestone Company (The)	Washington	Inactive (undeveloped limestone properties in Idaho)
Chelan Valley Credit Corporation	Washington	Financing fruit growers
Okanogan-Douglas Credit Corporation	Washington	Financing fruit growers
Omak Credit Corporation	Washington	Financing fruit growers
Spokane United Railways	Washington	Transportation
Washington Irrigation & Development Company	Washington	Inactive (real estate)

With the exception of Glacier Production Company which operates in Montana, and Inland Empire Refineries, Inc. which operates in Washington and Montana, each of said companies does business in the above described state of organization.

11. American Company owns all or substantially all of the common stocks, and in some cases some preferred stocks, bonds, debentures, notes and other obligations of its above named public utility subsidiaries. The stocks, and in some cases other securities, of the above named non-utility subsidiaries are owned either directly by American Company or by subsidiaries. The bonds and preferred stocks of the principal public utility subsidiaries of American Company are widely held by large numbers of investors. Except for the holdings of Bond and Share above noted, the funded debt, preferred stock and common stock of American Company are likewise widely held by large numbers of investors.

12. There are attached hereto the following schedules, all as of December 31, 1940:

Schedule I—Schedule of Principal Investments of American Company in Subsidiaries.

Schedule II—Schedule of Mortgage Bonds and Debentures Held by Public in Subsidiaries of American Company.

Schedule III—Schedule of Preferred Stocks Held by Public in Subsidiaries of American Company.

Schedule IV—Balance Sheet of American Company.

Schedule V—Consolidated Balance Sheet of American Company and Subsidiaries.

Schedule VI—Statement of Income and Earned Surplus of American Company.

Schedule VII—Statement of Consolidated Income of American Company and Subsidiaries.

Schedule VIII—Common Stock Capitalization and Earnings of Principal Subsidiaries.

Schedule IX—Summary of Plant Account and Capitalization of Public Utility Subsidiaries.

Schedule X—Income of American Company from Pre-

ferred Dividends and Interest, Years 1939 and 1940.

Schedule XI—Yearly Income from Preferred Dividends and Interest on Basis of Holdings December 31, 1940.

III.

Description of Business and Properties

13. Since its incorporation in 1909 American Company has confined its operations to the public utility holding company field as a vehicle for organizing, financing and developing electric, and in some cases gas, public utilities and related businesses. A fundamental concept of its organization was to diversify its holdings in public utilities so as to distribute the risk of the equity capital over as wide a territory as possible. With this object consciously in view, it created or acquired the public utility companies described in the preceding section in states as widely separated as Oregon and Washington in the northwest, Florida in the southeast, Minnesota in the north and Texas in the south, with other companies in central and western states, as above described.

14. Commencing with a limited capital and small properties in Kansas, Oregon and Washington, with total plant accounts in 1910 of some $24,000,000 and total operating revenues of some $2,500,000, American Company has grown and extended its operations over the wide field above mentioned to the point where its consolidated plant account as of December 31, 1940, was $765,907,505, and consolidated operating revenues of subsidiaries for the year ending December 31, 1940 were $108,221,998. It has at all times met all maturities and paid all interest upon its funded and other debt, and until and including October 1, 1932 had paid every quarter full dividends on its preferred stock, and in every year from 1913 to 1932 paid a cash dividend, and in

some years stock dividends, upon its common stock. Following the year 1932, however, due first to the influence of the depression, and in recent years to greatly increased taxes and other operating expenses, reduced rates, and the influence of government competition, it has met only a part of its preferred dividend requirements, and has paid no common dividends, maintaining, however, a consistent record of meeting all debt obligations, and paying through most of the period substantial dividends on its preferred stock. By December 31, 1940, it had undeclared cumulative dividends on its $6 Preferred Stock aggregating $20.32½ a share, or $16,129,005.38, and on its $5 Preferred Stock, $16.93¾ per share, or $16,572,395.25.

15. Notwithstanding the relatively unfavorable operating results of recent years, the Company and its principal operating subsidiaries have consistently maintained sound financial position and efficient operating properties, responding to every demand for service, and not only maintaining their properties in prime operating condition, but expanding and adding to them as service demands required. Between 1933 and 1940, inclusive, American Company's utility subsidiaries increased their plant account by $48,314,952 and reduced their debt by $9,910,368.

Consolidated current and accrued assets as of December 31, 1940, aggregated $60,066,610.96, as against current and accrued liabilities of $30,213,998.81. Of current assets approximately $40,000,000 represented cash or cash items (chiefly United States Government, state and municipal obligations). American Company itself had as of December 31, 1940, current assets of $20,326,105.58 against current liabilities of $4,684,509.47, and of its current assets cash or cash items aggregated approximately $20,000,000. Consolidated earned surplus of all companies as of December 31, 1940, was $45,137,007.50, of which American Company's earned surplus was $10,301,573.43

16. American Company's principal investments are in the common stocks of its subsidiary public utilities, but it has some investments in non-utility subsidiaries, and has substantial investments in debentures, bonds, notes, other obligations and preferred stocks of utility subsidiaries.

The following table indicates the combined earnings of American Company's subsidiaries applicable to American Company and other income of American Company for 1939 and 1940:

Table 1—Earnings Applicable to American Company.

	1939	1940
Net income of subsidiaries applicable to their common stocks owned by American Company (Schedule VIII)	$11,403,126	$12,420,484
American Company's income from interest and preferred dividends, and from short-term investments (Schedule X)*	3,058,317	2,846,817
Total	$14,461,443	$15,267,301

* Adjusted to include dividends on the preferred stocks of Florida Power & Light Company and Minnesota Power & Light Company at the regular annual rates. Actual amounts declared were at varying rates in 1939 and 1940.

Interest on American Company's funded debt for the year 1939 was $2,836,168 and for the year 1940 was $2,775,821.

These earnings are believed not to be fairly representative of the future earning power of American Company's investments. Present uncertainties due not only to the world situation but to the continued influence of increasing taxes, other operating expenses, government competition, and the readjustment of financial structure contemplated in

the Plan render earnings predictions based merely on current results unreliable.

17. In any reorganization of capital structure, consideration should be given to the intrinsic values of the company's holdings. The properties of operating subsidiaries have present values greatly in excess of their original costs, which indicate substantial equity values for the common stocks of these companies which comprise American's principal investment. These companies were well conceived and constructed and are performing necessary and valuable public service. An engineering estimate of present value of the principal operating subsidiaries of American Company, on the basis of cost of reproduction less depreciation, indicates a value, applicable to American Company's holdings of debt and stocks in such companies calculated on said basis, in excess of $300,000,000, as against American's investment account as of December 31, 1940, of $252,262,215.73. These companies are entitled to earn a reasonable return upon their fair values and, to the extent that such values are found to be greater than heretofo e, should be entitled to earnings predicated upon such present values.

18. Reviewing the entire situation, it may be said that American Company and its subsidiaries embody an inherently sound public utility holding company system founded on operating subsidiaries with substantial physical values and earning power. Under normal conditions, and freed from the continued threat of governmental competition, this system would yield full earnings requirements on American Company's preferred stock, including arrearages capitalized *pari passu* with the preferred stock, and leave substantial equity for the common stockholders.

19. Notwithstanding these facts, the incidence of the Public Utility Holding Company Act, the accumulated and accumulating arrearages on the preferred stock, and the continuance of the adverse factors above mentioned, make

it advisable to subsmit a plan of reorganization readjusting capital structure and limiting the operations of American Company.

IV.

Outline of Plan

20. Reference to the text of Section 11(b)(1) and (2) of the Public Utility Holding Company Act, as quoted in the marginal notes *supra*, correlated to the facts above recited as to physical operations of subsidiaries and capital structure of American Company, will indicate that in order to comply with this section of the Act, American Company must confine its control of public utility subsidiaries and the consequent field of its operations to a group of companies which may be held to constitute a single integrated public utility system, with such additional systems as the Securities and Exchange Commission may permit it to retain under Subparagraphs (A), (B) and (C) of Section 11(b)(1), and will indicate further that the corporate structure of the system must be free from unnecessary complications and be such as to fairly and equitably distribute voting power among security holders of the system.

21. It is not the purpose here to raise any technical or disputed questions as to the legal interpretation of these statutory provisions. They have not yet been authoritatively construed by the courts, and the Commission itself has not definitely exhausted the field of interpretation. The Commission has instituted against American Company proceedings under both Sections 11(b) (1) and (b) (2), upon charges that the present system violates these requirements of the Act. Without weighing these charges, it is obvious that American Company will be required to readjust its capital structure, and divest itself of control of a number of its important subsidiaries.

22. Consequently, the Plan herein proposed contemplates

that American Company shall reclassify its existing preferred stock, including arrearages, and common stock into a single class of stock which may be allocated on an equitable basis to each class of stock; that provision be made to take care of its present funded debt; that it shall limit the operations of its holding company systems to such subsidiaries comprising "single integrated public utility system(s)" and incidental businesses as the Company may be permitted to retain under the statute; and that it shall dispose of its holdings in the securities of other subsidiaries by ratable distribution to the holders of the reclassified stock.

23. The result of such a Plan will be that American Company will continue to be a holding company, with a much simpler and reduced capital structure with respect to the holding company system or systems that it may retain, and that the security holders of American Company will continue to own, subject to the effect of the reclassification of stock, their proportionate interest in all the holdings of the Company except such as may be required for other purposes stated in paragraphs 31 and 32 of Section VI hereof. Thus a present stockholder of American Company, instead of having certificates of stock in American Company alone, will have certificates for shares or fractional shares of stock in the reorganized American Company, and also in each of the subsidiary companies whose stock is distributed to him, proportionate to his holdings in American Company, as reflected in the reclassified stock.

24. This Plan is set forth in detail in the following articles, considering first, the reorganization of capitalization and financial structure, and second the determination of "integrated public utility systems" and their disposition.

V

Preliminary Readjustment of American Company Stock Capital

25. The major problem in the distribution of the holdings of American Company in the consummation of the Plan is to reclassify existing preferred (including arrearages), and common stock into units expressive of a common denominator for all classes of stock.[4]

26. American Company's present stock capitalization as of December 31, 1940, including each $100.00 of arrearages on the $6 Preferred and $5 Preferred stocks as equivalent to one share of stock on which such arrearages have accumulated, is as follows:

Table 2.

Class of Stock	Shares or Equivalent (Omitting Fractions)
$6 Preferred Stock	793,581 shares
Arrearages	161,290 " equivalent
$5 Preferred Stock	978,444 "
Arrearages	165,723 " "
Total Preferred Stock	2,099,038 " "
Common Stock	3,008,511 "

The stated value of $6 Preferred Stock and $5 Preferred Stock is $177,145,326 (arrearages on said preferred stocks as of December 31, 1940 totaled $32,701,400.63). The stated value of Common Stock is $37,434,351.29.

[4] In order to avoid frequent transfers with attendant expense, including taxes, it is proposed that each certificate of stock outstanding, irrespective of class, shall automatically become in legal effect a right to receive from time to time, as issued for delivery, the various stocks of the reorganized American Company and of the present subsidiaries to be distributed in the consummation of the Plan, to which the shares represented by such certificate shall be entitled.

27. It is proposed that the stock capital of the present American Company be reclassified in effect into such number of units as may be found advisable, after considering the equities of all classes of stock and the values attributable thereto, and that these units shall have the right to receive (1) new stock of the American Company and (2) stock of such of the present subsidiaries as shall be distributed to stockholders.

28. No attempt is made here to suggest the differential which might properly be recognized between the $6 Preferred Stock and the $5 Preferred Stock in the number of shares to be distributed in the reorganized American Company, or the number of units which might properly be awarded the present common shares. The $6 Preferred and $5 Preferred would be entitled to the number of units, or such fraction or multiple of such number, as may be adopted as the basis of distribution, including in such units arrearages on both classes of Preferred Stock to such date as may be fixed under the Plan. Additional units would be provided for any differential which might be accorded the $6 Preferred over the $5 Preferred, and the satisfaction of claims of the Common Stock to recognition. These problems are left open for determination upon consideration of all equities and pertinent facts.[5] To facilitate distribution of new stock of the reorganized American Company and the stocks of subsidiaries, the total unit capitalization should be in round figures, any odd number of units to be

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[5] On a liquidation of the present American Company, both $6 and $5 Preferred Stocks would be entitled (after present arrearages are satisfied), to share *pari passu* in distribution of cash or securities. Since it is proposed to continue the corporate existence of American Company, there may be a basis for preservation of some differential between these two classes of stock which should be compensated by some additional allotment of the new shares to the $6 Preferred as a class. The Common Stock is entitled to values inherent in the properties in excess of claims of prior securities.

retained in the treasury of the reorganized American Company or sold.

VI.

Capitalization and Functions of Reorganized American Company

29. It is proposed that the present American Company shall be continued in its corporate existence with its present charter and with its present powers, and will continue, pending the consummation of the Plan, to own the common stocks and other securities presently held by American Company, will retain all present investments, cash, and other current assets of American Company, and will continue to be obligated with respect to all current liabilities. In addition to current liabilities it will have outstanding American Company's direct obligation debentures aggregating $42,358,000, and Southwestern Power & Light Company assumed debentures aggregating $3,903,000, and will issue shares of common stock in such number and of such par value as may be determined. It is proposed that corporate accounts, both asset and liability, may be so stated that the book value of securities distributed to stockholders or otherwise disposed of may be charged to capital surplus or reserves created therefor.

30. Upon the completion of the recapitalization of American Company, as herein provided, each present stockholder of American Company shall have the right to receive shares (or fractional shares) of stock of the reorganized American Company for each unit, as hereinbefore defined, of the stock of American Company held by him.

31. The first duty of the reorganized American Company will be to discharge or otherwise provide for the present American Company's direct obligation debentures and the Southwestern Power & Light Company debentures assumed by American Company. It is proposed that Ameri-

can Company's cash and other assets as may be required, shall be used to discharge these American direct obligation debentures. The assumption of the Southwestern Power & Light Company debentures by the reorganized American Company may continue at least until 1947, and assets sufficient for their security and ultimate retirement may be retained by American Company.

32. American Company reserves the right, pending consummation of the Plan, to sell any securities of any subsidiary presently held by it, or to effect any exchange of any such securities for present debentures or present preferred stock, on bases which may meet the approval of the Securities and Exchange Commission.

33. The reorganized American Company will elect the integrated system or systems which it will be entitled to retain from the present holdings of American Company on principles hereinafter stated, and shall retain the securities representing its interests in such integrated syste.. or systems. The stocks of the remaining subsidiaries not included within any of said retained systems, or not required for the purposes stated in paragraphs 31 and 32, will be distributed to the common stockholders of the reorganized American Company in proportion to their respective holdings.

VII.

The Selection of an Integrated Public Utility System or Systems

34. Prior to the distribution of the stocks of subsidiaries not to be retained in the integrated public utility system or systems of American Company, the Company shall elect the integrated system or systems which it is entitled to retain and shall present its election to the Commission for its consideration and approval. The principles governing such election are set forth in 11(b) (1) of the Act, as quoted in

the margin on page 2 hereof. Briefly, under such section the company may retain, subject to the approval of said Commission, "a single integrated public utility system and * * such other businesses as are reasonably, incidental or economically necessary or appropriate to the operations" of such public utility system, and may be permitted to retain such additional systems as the Commission may find (A) cannot be operated independently without the loss of substantial economies, (B) are located in one state or in adjoining states, and (C) are not so large in combination as to impair advantages of localized management, efficient operation or effective regulation. American has within its present holding company system six integrated public utility systems, as hereinafter described, which satisfy these statutory requirements.

35. The statutory definition of an integrated public utility system contained in Section 2(a) (29) of the Act, quoted in the margin on page 2 hereof, has not been finally interpreted with respect to the extent of the area or region which may be included without impairing the advantages of localized management, efficient operation and effectiveness of regulation, nor has there been a definitive construction of the similar requirements of paragraphs (A) and (C) of Section 11 (b) (1), or the meaning of the words "located in one state or in adjoining states" contained in paragraph (B) of said Section 11(b) (1). With respect particularly to this language, it has not as yet been determined whether the additional systems must be located in states adjoining the principal system, or whether it is merely necessary that the additional systems must be in states adjoining each other. If the former interpretation be adopted and confirmed by the courts, American Company may retain only a single system or systems in adjoining states. American Company's choice as to which properties to retain would thus be limited to the North-

western group of properties, the Texas group, the Kansas-Nebraska group, the Minnesota-Wisconsin group, Florida Power & Light Company, or Central Arizona Light and Power Company. If, however, the latter interpretation be adopted, American could choose as its principal integrated system any one of these, and in addition thereto, with the Commission's approval, could retain any other regional system or systems in one state or adjoining states regardless of location with respect to the principal system. American Company reserves the right to contend for this latter construction and to elect to retain any one of these systems referred to as its principal integrated system, and any one of the remaining groups as an additional integrated system.

VIII.

The Northwestern Integrated System

36. The Northwestern group of public utility companies includes Pacific Power & Light Company (including Inland Power & Light Company), Portland Gas & Coke Company, Northwestern Electric Company, The Washington Water Power Company and The Montana Power Company, and the non-public utility subsidiaries in the states supplied by these companies. Unless part or all of this group of properties is retained under the control of American Company it is proposed that a Northwestern holding company shall be created or chosen which shall acquire American Company's holdings in any or all of the companies in the Northwestern group.

37. The American Company's electric subsidiaries in the Northwestern System constitute a completely integrated electric public utility system within the definition of Section 2(a) (29) of the Act. It combines advantages of geographic, economic and climatic diversity with diversity of power supply, both as to location and as between steam

and water power, in such manner as to promote the maximum efficiency and economy of operation as a single system. It is operated as a single system in which the engineering problems of power supply and transmission are conducted and administered jointly in the most efficient and beneficial manner for all the companies considered as a group, and the local business of selling and distributing electric energy is under the separate control of the different companies serving their respective areas so as to preserve complete efficiency, economy and independence of local management under the local regulation of State authority.

38. If the Northwestern System may not be considered as a single system, considering The Washington Water Power Company as the primary or central system having its center in Spokane, Washington, practically on the Idaho boundary and serving northern Idaho and eastern Washington, the systems of The Montana Power Company and the combined systems of Pacific Power & Light Company (including Inland Power & Light Company), and Northwestern Electric Company are additional systems satisfying the requirements of Subparagraphs (A), (B) and (C) of said Section 11(b) (1). They cannot be operated as independent systems without the loss of substantial economies which can only be secured by retention of control by a holding company, are located in the same or adjoining states to the central or principal system, and their continued combination is not so large as to impair advantages of localized management, efficient operation or the effectiveness of regulation.

39. Portland Gas & Coke Company is a gas utility and as such, under ruling of the Securities and Exchange Commission, may be considered as an independent system and not as a part of the integrated electric utility system, but likewise satisfies the requirements of said Paragraphs (A), (B) and (C) of said Section 11 (b) (1). American Com-

pany, with the approval of the Securities and Exchange Commission, has recently made a substantial investment in the common stock of said Portland Gas & Coke Company for the purpose of developing by-product business. This will require a considerable period of time, and gives promise of substantially increasing the value of American Company's holdings in Portland Gas & Coke Company. These holdings should be retained by the reorganized American Company, or by such holding company as may be created for the Northwestern group of properties, for a sufficient length of time to permit realization of these values. If, as and when either said company or its properties may be sold to advantage, they may be so sold either by American Company or the Northwestern holding company.

40. It is believed that the non-utility properties of, or businesses conducted by, the companies mentioned in paragraph 10 hereof, which conduct their operations in the Northwestern states, may properly be retained as "other businesses reasonably incidental or economically necessary or appropriate to the operations" of the Northwestern public utility system. Glacier Production Company, Inland Empire Refineries, Inc., Moen-Leick Industries, Inc. and Chief Petroleum Company are out-growths of the natural gas business, with its attendant oil development of The Montana Power Company, and are necessary to the successful production, refining and disposal of such gas or oil products. Great Falls Townsite Company was acquired by The Montana Power Company by succession to properties of earlier companies in their historical development. Spokane United Railways was developed originally as a street railway in conjunction with the development of the power business of The Washington Water Power Company, but is now largely a bus company. The stock interests of the public utility subsidiaries of American Company in Yakima

Credit Corporation, R. S. & C. Irrigation Company, Inc., Chelan Valley Credit Corporation, Okanogan-Douglas Credit Corporation and Omak Credit Corporation were acquired principally in connection with programs of agricultural developments essentially as community enterprises. Columbia Highlands Company and The Limestone Company are continuing in business merely as convenient depositories of real estate titles. American Company and its subsidiaries would willingly dispose of its interests in all these companies, other than the gas and oil group first above mentioned, after taking title to any land now held by the land companies which it might be desirable to retain, if, as and when any opportunity for disposal of these investments on satisfactory terms arises.

41. While the Northwestern System as above defined is the largest single integrated system, or group of systems, within the present American Company holding company system, involving its largest investments, property accounts, consolidated capitalization and earnings, the future of such system depends upon the outcome of the Federal government power prograr in the northwest.

42. It is possible that it may be found desirable to sell certain of the properties of American's subsidiaries in the Northwestern group, which are presently confronted with the problems of potential competition with government financed Bonneville and Grand Coulee power projects, to public utility districts or other power systems, including such authority as may be created to administer the government projects. Sale of substantial parts of these properties to the Federal government, or to municipalities or other public bodies, might result in the destruction of the system as at present constituted.

43. The foregoing considerations preclude the formulation at this time of any definite program for the corporate and inter-corporate structure of such company as may be

created to hold American Company's investment in the Northwestern System but it is expected that the policies to be pursued by the Federal government in the distribution of power from Bonneville and Grand Coulee will be made definite at a reasonably early date, so as to permit of the formulation of a definitive program with respect to Northwestern System, including the determination whether it should be retained by American Company, or placed in control of a newly created holding company.

IX.

The Texas System

44. It is proposed that the Texas group of properties, consisting of Texas Power & Light Company, Texas Electric Service Company and Texas Public Utilities Corporation, and as a system in a contiguous state, New Mexico Electric Service Company, shall be grouped into an integrated public utility system controlled or operated by a company, which may be either American Company, or another company.

45. Texas Power & Light Company, Texas Electric Service Company and Texas Public Utilities Corporation presently constitute a completely integrated public utility system, the operations of which are confined entirely to the State of Texas.[6]

46. New Mexico Electric Service Company is incorporated in New Mexico and renders service entirely in Lea

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[6] The electric operations of Texas Public Utilities Corporation are unimportant, being presently confined to a small distribution system competing with a municipal system in Weatherford, Texas, and another one in Peaster, Texas, both of which should be sold if opportunity offers. In addition to its electric operations, this company owns and operates ice and water plants and systems which should likewise be sold. If satisfactory sales may be arranged, this company will be liquidated, and the proceeds of liquidation retained by the reorganized American Company, in which event it will not become a part of the Texas system as herein described.

County, New Mexico, contiguous to the western boundary of Texas. All its capital stock and other obligations are owned by American Company. The capitalization, plant and earnings are too small for distribution to stockholders of American Company, and it is proposed that this company remain affiliated with the Texas System operating in an adjoining state, either as a separate company, or by absorption by Texas Power & Light Company or Texas Electric Service Company.

47. Unless American Company shall elect to retain the systems mentioned in Paragraph 44 hereof, it is proposed that they shall be transferred to some other company.

48. If such other company shall be created or chosen, the common stocks owned by American Company of the companies mentioned in paragraph 44 hereof, or the properties of said companies, shall be transferred to such company. The debt obligations of Texas Public Utilities Corporation (unless discharged in liquidation) and of New Mexico Electric Service Company to American Company will be likewise transferred to such company.

X.

The Kansas-Nebraska System

49. The Kansas Gas and Electric Company and Nebraska Power Company have heretofore operated as entirely separate systems in adjoining states. Construction is in progress for the interconnection and integration of their physical operations through a 154 k.v. transmission line. The object of the interconnection and integration is to provide for transfers of large quantities of electric power and energy between the systems of the two companies, balancing their loads, and combining the reserve capacity of both companies so as to be available for the needs of either. When it is completed the systems of the two com-

panies will be operated in parallel and as a single integrated system.

50. Unless American Company shall elect to retain the Kansas-Nebraska System as part of its system, it is proposed that Nebraska Power Company shall acquire from American Company the common capital stock of Kansas Gas and Electric Company, or that American Company shall cause the properties of said two companies to be vested in one operating company, for such cash or other consideration as may be approved by the Commission. Cash or other consideration so received by American shall be used either as working capital or towards the discharge of its debenture obligations.

XI.

The Minnesota-Superior System

51. Minnesota Power & Light Company, Northern Power Company and Superior Water, Light and Power Company operate as a single integrated system in northern Minnesota, and in a contiguous area in and about Superior, Wisconsin, with principal offices in Duluth, Minnesota, and Superior, Wisconsin, respectively. Minnesota Power & Light Company is the source of the greater part of the electric power and energy produced and distributed in this region. Northern Power Company is primarily a transmission and distributing company interconnecting the Minnesota and Superior properties and supplying power customers in Superior. American Company owns all the stock and debt obligations of Northern Power Company, and all the debt and capital obligations, except $109,000 of debt and 3,337 shares of the preferred stock, of Superior Water, Light and Power Company, and also owns all the securities, including debt, of the non-utility Topeka Land Company, mentioned in paragraph 10 hereof. Topeka Land Company owns real estate and water rights acquired for

further development of the utility plant of Minnesota Power & Light Company, which should be retained as incidental to the public utility business of that company.

52. It is proposed that Northern Power Company and Superior Water, Light and Power Company shall be merged into a single corporation serving the Superior district in northern Wisconsin.

53. Unless American Company shall elect to retain the Minnesota-Superior System, it is proposed that the Minnesota Power & Light Company shall acquire the stocks and other capital obligations of the combined Northern and Superior Companies, and of Topeka Land Company, and shall continue the present operations of the integrated system as predominately a public utility company whose operations do not extend beyond the state in which it is organized and a contiguous state.

XII.

Other Systems

54. Florida Power & Light Company should retain title to the stock presently held by it in Consumers Water Company, subject, however, to sale when, as and if opportunity offers. American Company should transfer to the Florida Power & Light Company its title to the stock and any other securities held by it in the Utilities Land Company. The land owned by this company so far as necessary or desirable should be held for future development of the public utility operations of Florida Power & Light Company, and any land not so required should be sold as opportunity offers. No change is proposed as to Central Arizona Light and Power Company.

XIII.

Reservation of Right to Include Additional Properties in Proposed Systems and of Right to Adopt Alternative Methods of Distribution

55. There is present the possibility of including within the systems referred to in Articles VIII, IX, X, XI and XII, as additional components thereof, certain other properties which are either presently physically interconnected with or capable of physical interconnection with such systems. No concrete proposal is made for the inclusion of such properties in such systems, but the right is reserved to offer evidence as to the economic advantages of any such inclusion, with a view to showing that these other properties may properly be included as part of a single integrated public utility system or as additional systems satisfying the requirements of Paragraphs (A), (B) and (C) of Section 11(b) (1) of the Act. The right is also reserved to finance the acquisition of such additional properties by the issuance of securities by companies in such systems, or to use any available cash of American Company or the proceeds of any securities which may be issued by such companies or American Company to finance any such acquisition.

56. If the Commission shall disapprove, in whole or in part, of the proposals for the creation or selection of the integrated public utility systems described in Articles VIII, IX, X, XI and XII hereof, or any of them, or if, by reason of legal or practical difficulties, it shall be found in the opinion of the directors inadvisable to transfer or cause to be transferred the properties or stocks of any of the present subsidiary operating companies to another company or companies, as proposed in said Articles, the right is reserved under this Plan, and without amendment thereof,

to distribute directly to the holders of the reclassified stock of American Company the stocks of any of said subsidiaries which are not retained by American Company as parts of its integrated system or systems.

XIV.

Changes in Subsidiary Capitalization

57. It is proposed that the numbers of shares of common stock of newly created companies or existing subsidiary companies may be stated or restated into such a number of shares as may avoid excessive transfer taxes and may be so proportioned to the reorganized American shares of common stock outstanding that convenient units or fractions may be readily distributed to the holders of the reclassified American Company stock. Existing subsidiary companies may also, from time to time refund all or part of their outstanding securities, or otherwise readjust their capital structures.

XV.

Ultimate Distribution of Common Capital Stock

58. Upon completion of the above proposed restatement of capital of the reorganized American Company and of the subsidiary companies and subject to possible use for retirement of debentures or preferred stock, there would be available to each unit, as herein defined, of American Company's present capitalization shares or fractional shares of stock in the following systems or companies:

American Company as reorganized
The Northwestern System
(See Par. 36 to 43)
The Texas System
(See Par. 44 to 48)
Kansas-Nebraska System
(See Par. 49 and 50)

Minnesota-Superior System
(See Par. 51 to 53)
Florida Power & Light
Company
Central Arizona Light and
Power Company

Subject to the retention by the reorganized American Company of not to exceed two of these systems or companies, and also subject to the considerations hereinbefore mentioned of possible use of shares of any of its subsidiaries in connection with the discharge of, or provision for, the debentures or in exchange for the present preferred stock, it is proposed that, upon ultimate consummation of the Plan, all remaining shares or fractional shares in the above systems or companies be distributed to the units of American Company's present capitalization.

59. Whether, after determination of the integrated public utility system or systems to be retained by American Company, it would be advisable to distribute the stocks of the companies composing or controlling these systems, and completely liquidate American Company, or whether American should continue to function as a holding company for such system or systems, cannot be decided until such system determination is made. The right to propose complete liquidation of American Company by amendment to this Plan is expressly reserved.

XVI.

Mechanics of Plan

60. This Plan herein outlined is to be submitted forthwith to the Securities and Exchange Commission for its consideration. The right is reserved to the Company, acting through its Board of Directors, to propose amendments and to accept amendments suggested by the Commission or

its staff. All stockholders of record of American Company will be advised of the filing of this Plan and, in summary form, of the contents thereof, and will be kept informed from time to time of developments in connection therewith. Copies of the Plan will be available to stockholders upon request.

61. Upon consideration and final approval of the Plan by the Commission and the Board of Directors, including any amendments proposed and adopted, the Board of Directors will call a stockholders' meeting with the stated objective of submission of the Plan for approval.

62. The Board of Directors is advised by Counsel that, under applicable laws and charter and by-law provisions, the stock vote of 90 percent. of each class of preferred stock ($6 and $5) and a majority of the common stock will be required to effectuate the Plan. Therefore, the Plan will not become effective unless 90 percent. of each class of preferred stock shall affirmatively vote to accept the Plan, in addition to the required vote of common stock.

63. It may be found necessary or desirable, if the Commission should approve the proposed reclassification of American Company stock, reserving for later consideration the determination of the integrated public utility system or systems which American Company shall be entitled to retain, to submit to stockholders' vote separately the question of approval and authorization of the reclassification of stock. In this event, the right is reserved to so submit the reclassification proposal separately to vote of stockholders, and to effectuate such reclassification in advance of determination of the other problems presented by the Plan.

XVII.

Alternatives to Plan

64. The Board of Directors is advised by Counsel that if some such Plan, as herein outlined, is not adopted by voluntary action of sufficient stock vote to make the same legally and practicably effective, the only other voluntary course left to the Company and its stockholders would be a formal statutory dissolution, requiring a majority vote of all stock, under which the Company (or a receiver or trustee appointed for it) would be required to sell or otherwise liquidate assets and holdings of the Company, applying the proceeds (1) to the discharge of debentures and other debt, and (2) to the retirement of preferred stock, including arrearages, and distributing the balance, if any, to common stockholders either in cash or in kind.

65. Without attempting to appraise the approximate realization under such a statutory dissolution, the Board of Directors is of the opinion that such a dissolution would result in excessive losses to stockholders. The long continued depression, followed by a period of unstable business conditions, accompanied by high taxes, increased expenses and government competition, and now aggravated by war and worldwide economic dislocation, render extremely problematical the results of a liquidation involving sale of assets and discharge of debt and preferred stock obligations, in their order of priority.

66. Since a voluntary statutory dissolution appears impractical, it may be assumed that the only alternative to the adoption of some such voluntary plan as herein proposed would be to await the action of the Securities and Exchange Commission under the pending proceedings under Section 11(b). In event the Commission by its order should require the dissolution of American Company and such order be enforced by a court, such dissolution would

be administered by a court through a proceeding in which a trustee may be appointed to hold or administer the assets of the Company, pursuant to Section 11 (d) of the Public Utility Holding Company Act of 1935.[7] Such dissolution would have all the incidents, expenses, delay and uncertainty of an equity receivership or a bankruptcy reorganization.

XVIII.

Recommendation of Plan

67. This Plan has been formulated as a proposal which in the judgment of the Directors will be in the ultimate interest of all security holders of the Company, and which offers a preferable alternative to either a statutory dissolution, or a dissolution pursuant to order of the Securities and Exchange Commission. If approved by that Commission, the Plan will be offered to stockholders merely as a recommendation for their consideration or rejection in discharge of what the Directors conceive to be their duty, to propose what seems to them the best solution of a difficult problem.

---

[7] Section 11(d).

"(d) The Commission may apply to a court, in accordance with the provisions of subsection (f) of section 18, to enforce compliance with any order issued under subsection (b). In any such proceeding, the court as a court of equity may, to such extent as it deems necessary for purposes of enforcement of such order, take exclusive jurisdiction and possession of the company or companies and the assets thereof, wherever located; and the court shall have jurisdiction, in any such proceeding, to appoint a trustee, and the court may constitute and appoint the Commission as sole trustee, to hold or administer under the direction of the court the assets so possessed. In any proceeding for the enforcement of an order of the Commission issued under subsection (b), the trustee with the approval of the court shall have power to dispose of any or all of such assets and, subject to such terms and conditions as the court may prescribe, may make such disposition in accordance with a fair and equitable reorganization plan which shall have been approved by the Commission after opportunity for hearing. * * *."

68. All statements herein are made with full reservation of legal and constitutional rights of the Company, its subsidiaries, and its and their security holders.

By order of the Board of Directors.

AMERICAN POWER & LIGHT COMPANY
Howard L. Aller, President

Two Rector Street, New York, N. Y.
July 23, 1941.

SCHEDULE I

American Power & Light Company
Principal Investments in Subsidiaries
December 31, 1940

Central Arizona Light and Power Company:			
Common stock		840,000 shares	(100%)
Florida Power & Light Company:			
6% Gold Debenture Bonds, due 12/31/1951	$ 22,000,000		
$7 Preferred stock		13,477 shares	(8.6%)
$6 Preferred stock		10,000 shares	(100%)
$7 Second preferred stock		20,000 shares	(100%)
Common stock		2,500,000 shares	(100%)
Glacier Production Company:			
4½% notes due 11/1/1940	$ 750,000		
4½% advances	$ 600,000		
Kansas Gas and Electric Company:			
Common stock		600,000 shares	(100%)
Minnesota Power & Light Company:			
$6 Preferred stock		878 shares	(1.2%)
6% Preferred stock		225 shares	(53.9%)
7% Preferred stock		865 shares	(1.0%)
Common stock		1,999,990 shares	(99.9%)
The Montana Power Company:			
5% Thirty Year Debentures due 12/1/1966	$ 10,589,900		
Common stock		2,475,583 shares	(99.7%)
Nebraska Power Company:			
Common stock		965,991 shares	(96.5%)

New Mexico Electric Service Company:			
6% advances	$ 80,000		
6% note due on or before 11/25/1940	$ 497,000		
Capital stock	37,497	shares	(99.9%)*
Northern Power Company:			
Demand loans—5% interest if earned	$ 794,000		
Capital stock	247	shares	(98.8%)*
Northwestern Electric Company:			
4½% Debentures due 9/1/1959	$ 2,660,000		
Common stock	100,000	shares	(100%)
Pacific Power & Light Company:			
6% note due on or before 11/25/1940	$ 2,794,500		
Common stock	1,000,000	shares	(100%)
Portland Gas & Coke Company:			
Common stock	311,119	shares	(99.9%)*
Superior Water, Light and Power Company:			
5% demand loans	$ 1,636,000		
7% Preferred stock	1,663	shares	(33.2%)
Common stock	4,995	shares	(99.9%)*
Texas Electric Service Company:			
Common stock	5,999,900	shares	(99.9%)*
Texas Power & Light Company:			
First Mortgage Bonds, 4¾% Series due 9/1/1965	$ 4,900,000		
Common stock	4,000,000	shares	(100%)
Texas Public Utilities Corporation:			
6% note due on or before 11/25/1940	$ 330,000		
Income note due on or before 11/30/1940	$ 2,500,000		
Capital stock	9,998	shares	(99.9%)*
The Washington Water Power Company:			
Common stock	2,533,840	shares	(99.6%)

* All except directors' shares.

Schedule II

AMERICAN POWER & LIGHT COMPANY

Mortgage Bonds and Debentures of Subsidiaries Held by Public

December 31, 1940

Company and Issue	Rate	Maturity	Outstanding	Held Intercompany	Held in Treasury	Held by Public
MORTGAGE BONDS:						
Central Arizona Light and Power Company:						
First Mortgage Bonds, 3½% Series	3½%	12/1/1966	$ 6,500,000.00	—	—	$ 6,500,000.00
Florida Power & Light Company:						
First Mortgage Gold Bonds, 5% Series	5%	1/1/1954	52,000,000.00	—	—	52,000,000.00
Kansas Gas and Electric Company:						
First Mortgage Bonds, 3¼% Series, due 1970	3¼%	4/1/1970	16,000,000.00	—	—	16,000,000.00
Minnesota Power & Light Company:						
First and Refunding Mortgage Gold Bonds, 5% Series	5%	6/1/1955	10,700,000.00	—	—	10,700,000.00
First and Refunding Mortgage Gold Bonds, 4½% Series	4½%	5/1/1978	18,000,000.00	—	—	18,000,000.00
Great Northern Power Company First Mortgage Five Per Cent. Gold Bonds	5%	2/1/1950	5,224,000.00	—	—	5,224,000.00
The Montana Power Company:						
*First and Refunding Mortgage Bonds, 3¼% Series	3¼%	12/1/1966	46,273,000.00	—	—	46,273,000.00
**Butte Electric and Power Company Five Per Cent. First Mortgage Gold Bonds	5%	6/1/1951	3,016,000.00	—	—	3,016,000.00
Nebraska Power Company:						
First Mortgage Gold Bonds, 4½% Series	4½%	6/1/1981	16,500,000.00	—	—	16,500,000.00
Northwestern Electric Company:						
First Mortgage Bonds, 4% Series due 1969	4%	9/1/1969	6,700,000.00	—	—	6,700,000.00
Pacific Power & Light Company:						
***First Mortgage and Prior Lien Gold Bonds, 5% Series	5%	8/1/1955	20,500,000.00	—	—	20,500,000.00
Portland Gas & Coke Company:						
†First and Refunding Mortgage Five Per Cent. Gold Bonds due 1940 extended in part to 1950	5%	1/1/1950	9,424,000.00	—	§ 2,986,000.00	6,438,000.00
†First Lien and General Mortgage Gold Bonds, Series of "4½s due 1940" extended in part to 1950	4½%	1/1/1950	2,930,000.00	—	3,000.00	2,927,000.00
Portland Gas Company First Mortgage 5% Gold Bonds	5%	8/1/1951	750,000.00	—	‖ 379,000.00	371,000.00
Superior Water, Light and Power Company:						
First Consolidated Mortgage Gold Bonds, Series 1, 5%	5%	11/1/1965	124,000.00	—	15,000.00	109,000.00
Texas Electric Service Company:						
First Mortgage Gold Bonds, 5% Series.	5%	7/1/1960	33,730,000.00	—	—	33,730,000.00
Texas Power & Light Company:						
First and Refunding Mortgage Gold Bonds, 5% Series	5%	11/1/1956	26,650,000.00	—	—	26,650,000.00
First Mortgage Bonds, 4¼% Series	4¼%	9/1/1965	15,000,000.00	$4,900,000.00	—	10,100,000.00
The Washington Water Power Company:						
First Mortgage Bonds, 3½% Series	3½%	6/1/1964	22,000,000.00	—	—	22,000,000.00
TOTAL MORTGAGE BONDS, PER CONSOLIDATED BALANCE SHEET						$303,738,000.00
DEBENTURES:						
Kansas Gas and Electric Company:						
Six Per Cent. Gold Debenture Bonds, Series A	6%	9/1/2022	$ 3,000,000.00	—	—	$ 3,000,000.00
Nebraska Power Company:						
Six Per Cent. Gold Debenture Bonds, Series A	6%	9/1/2022	3,500,000.00	—	—	3,500,000.00
Texas Power & Light Company:						
Six Per Cent. Gold Debenture Bonds, Series A	6%	7/1/2022	2,000,000.00	—	—	2,000,000.00
TOTAL DEBENTURES, PER CONSOLIDATED BALANCE SHEET						$ 8,500,000.00
TOTAL MORTGAGE BONDS AND DEBENTURES OF SUBSIDIARIES						$312,238,000.00

NOTES:

* All common stock and debentures of Glacier Production Company, a subsidiary of The Montana Power Company, are pledged as collateral to this issue.

** Part of the capital stock of a minor subsidiary of The Montana Power Company is pledged as collateral to this issue.

*** All capital stock (except directors' shares) and demand note of Inland Power & Light Company, a subsidiary of Pacific Power & Light Company, are pledged as collateral to this issue.

§ $2,930,000 principal amount of these bonds are pledged as collateral to Portland Gas & Coke Company First Lien and General Mortgage Gold Bonds, Series of "4½s due 1940".

‖ Pledged as collateral to Portland Gas & Coke Company First and Refunding Mortgage Five Per Cent. Gold Bonds.

† See note to consolidated balance sheet relating to the extension of these bonds.

AMERICAN POWER & LIGHT COMPANY

Preferred Stocks of Subsidiaries Held by Public

December 31, 1940

Company	Par Value	Dividend Rate	Number of Shares: Outstanding Less Intercompany	Number of Shares: Reacquired	Ba... P...
Central Arizona Light and Power Company ..	No Par	$7	7,500	12	
Central Arizona Light and Power Company ..	No Par	$6	9,774	501	
Florida Power & Light Company	No Par	$7	*146,523	3,856	*(
Kansas Gas and Electric Company	$100	7%	66,500	3,882	(
Kansas Gas and Electric Company	No Par	$6	15,511	1,768	1
Minnesota Power & Light Company	$100	7%	79,208	—	
Minnesota Power & Light Company	$100	6%	192	—	
Minnesota Power & Light Company	No Par	$6	70,424	—	
The Montana Power Company	No Par	$6	159,589	—	15
Nebraska Power Company	$100	7%	52,000	38	
Nebraska Power Company	$100	6%	23,000	439	2
Northeastern Electric Company	$100	7%	47,593	326	
Northwestern Electric Company	$100	6%	555	—	
Pacific Power & Light Company	$100	7%	58,100	1,676	1
Pacific Power & Light Company	No Par	$6	10,585	—	1
Portland Gas & Coke Company	$100	7%	54,580	595	5
Portland Gas & Coke Company	$100	6%	8,712	—	
Superior Water, Light and Power Company ..	$100	7%	3,337	—	
Texas Electric Service Company	No Par	$6	65,000	2,387	4
Texas Power & Light Company	$100	7%	65,000	146	6
Texas Power & Light Company	No Par	$6	68,786	274	6
The Washington Water Power Company	No Par	$6	103,753	—	10
TOTAL			1,116,222	15,900	1,10

* Including 12 shares issuable in exchange for preferred stocks of merged company.

Schedule IV

AMERICAN POWER & LIGHT COMPANY

Balance Sheet—December 31, 1940

ASSETS

INVESTMENT SECURITIES AND ADVANCES—SUBSIDIARIES (Ledger value—based on company's valuations of securities acquired for securities issued and on cash costs, less adjustments, and less net proceeds received and other credits arising through disposal of investments included in group valuations. Losses or gains arising through the disposal of bonds and other investments included in group valuations—undeterminable in the absence of individual valuations—are included in ledger value.)		$252,262,215.73
CURRENT ASSETS:		
Cash in banks—on demand	$ 9,207,768.16	
Special cash deposits	76,843.00	
Temporary cash investments:		
United States Government guaranteed securities	2,011,172.76	
State, municipal, and other short-term securities	8,315,186.57	
Accounts receivable from others than subsidiaries	1,369.63	
Accrued interest receivable:		
Subsidiaries	194,193.41	
Others	40,891.18	
Dividends receivable—subsidiaries	478,429.07	
Other current assets	251.80	
Total current assets		20,326,105.58
DEFERRED CHARGES:		
Prepayments	$ 9,012.50	
Unamortized debt discount and expense	3,265,452.02	
Total deferred charges		3,274,464.52
TOTAL		$275,862,785.83

LIABILITIES

CAPITAL STOCK (no par value):		
Preferred ($6), cumulative (entitled upon liquidation to $100 a share); pari passu with $5 preferred; authorized, 1,000,000 shares; outstanding, 793,581 2/10 shares, including 26 2/10 shares of scrip	$79,300,926.00	
$5 preferred, cumulative (entitled upon liquidation to $100 a share); pari passu with preferred ($6); authorized, 2,200,000 shares; outstanding, 978,444 shares	97,844,400.00	
Common: authorized, 4,000,000 shares; issued, 3,013,812 27/50 shares, less 5,301 shares reacquired and held by company; outstanding, 3,008,511 27/50 shares, including 2,013 27/50 shares of scrip	37,434,351.29	
Total capital stock		$214,579,677.29
LONG-TERM DEBT:		
Gold Debenture Bonds, American 6% Series, due March 1, 2016	$42,358,000.00	
Southwestern Power & Light Company, 6% Gold Debenture Bonds, Series A, due March 1, 2022	3,903,000.00	
Total long-term debt		46,261,000.00
CURRENT LIABILITIES:		
Accounts payable	$ 346,521.20	
Accrued interest on long-term debt (including $76,423.00 matured interest for which cash is in special deposits)	1,001,643.00	
Preferred dividends declared, payable January 2, 1941	3,015,765.85	
Accrued taxes	319,159.42	
Other current liabilities	420.00	
Total current liabilities		4,684,509.47
CAPITAL SURPLUS		36025.64
EARNED SURPLUS		10,301,573.43
TOTAL		$275,862,785.83

NOTE:

At December 31, 1940 undeclared cumulative dividends amounted to $16,129,005.38 ($20.32½ a share) on the preferred stock ($6) and $16,572,395.25 ($16.93¾ a share) on the $5 preferred stock, for which no provision has been made in the above statement.

ASSETS

PLANT, PROPERTY, AND EQUIPMENT (INCLUDING INTANGIBLES) of subsidiary companies (based on ledger value)	$781,397,856.27	
Less net adjustment arising from the elimination of intercompany-held securities including balance of surplus of subsidiaries at dates of acquisition as adjusted	15,490,351.17	
Balance (including undetermined amount of cost of acquiring capital arising prior to 1932, estimated by the Company to be approximately 3% of the total plant account)		$765,907,505.10
INVESTMENT AND FUND ACCOUNTS:		
Miscellaneous securities (ledger value)	$ 563,904.60	
Non-current receivables	310,617.00	
Miscellaneous special funds	322,040.52	
Total investment and fund accounts		1,196,562.12
CURRENT AND ACCRUED ASSETS:		
Cash in banks—on demand	$ 21,545,479.45	
Cash in banks—time deposits	750,000.00	
Special deposits:		
Matured long-term debt and interest	3,245,672.08	
Other	171,006.07	
Working funds	279,764.04	
Temporary cash investments:		
United States Government obligations, direct and guaranteed	2,740,451.15	
State, municipal, and other short-term securities	13,353,829.59	
Notes and loans receivable	262,950.22	
Accounts receivable:		
Customers and miscellaneous	11,356,441.80	
Associated companies	10,087.08	
Materials and supplies	5,658,032.46	
Prepayments	455,266.24	
Other current and accrued assets	237,630.78	
Total current and accrued assets		60,066,610.96
DEFERRED DEBITS:		
Unamortized debt-discount and expense	$ 14,548,754.66	
Other	667,556.94	
Total deferred debits		15,216,311.60
REACQUIRED CAPITAL STOCK—Subsidiaries—15,900 shares preferred		1,583,463.87
CONTINGENT ASSETS (contra)		397,184.02

NOTES:

Plant, property, and equipment (including intangibles) are stated on the basis of the companies' valuation thereof at acquisition where acquired by issuance of stocks and other securities or on the basis of cost where acquired for cash or constructed, less retirements at actual or estimated cost, and do not purport to represent present realizable values or replacement cost.

It has been the general practice of the companies to provide for retirements of property by making such provisions from current income as are considered by the management necessary to provide for retirements when they occur, such provisions being in addition to expenditures included in operating expenses to maintain the properties in condition to render adequate service. The provisions made for retirements do not purport to be calculated on the basis of estimated lives of the individual units of depreciable property.

Systems of accounts prescribed by regulatory authorities for public utilities provide for depreciation and depletion accounting and reclassification of plant, property, and equipment (including intangibles). Subsidiaries subject to the systems of accounts have submitted reclassifications to regulatory commissions having jurisdiction or are preparing reclassifications, but pending final disposition thereof and final determination of the extent to which such provisions may be imposed, the effect on the companies' accounts is unknown.

Certain intercompany-held securities of subsidiaries (eliminated in consolidation) have been pledged as set forth in the detailed schedule of mortgage bonds and debentures (of subsidiaries) held by public.

Consolidated earned surplus in the above balance sheet includes approximately $4,250,000 of the earned surplus of certain subsidiaries, after consolidation adjustments, subject to restrictions created during 1939 in connection with the financing and bond extension operation of such subsidiaries.

At December 31, 1940 undeclared cumulative dividends of American Power & Light Company amounted to $16,129,005.38 ($20.32½ a share) on the preferred stock ($6) and $16,572,395.25 ($16.93¾ a share) on the $5 preferred stock, for which no provision has been made in the above statement.

*At December 31, 1940 the holders of Portland Gas & Coke Company $600,000.00 principal amount of first and refunding mortgage five per cent. gold bonds, due 1940 and $79,000.00 principal amount of first lien and general mortgage gold bonds, series of "4½s due 1940" had not become parties to the Extension Plan and Deposit Agreement dated October 27, 1939 and operative February 29, 1940, which provided for the extension of the bonds to January 1, 1950. The bonds of holders who have not yet become parties to the Extension Plan and Deposit Agreement are not included in current liabilities in the above balance sheet.

Total	$844,367,637.67

MPANY AND SUBSIDIARIES — Schedule V

December 31, 1940

LIABILITIES

CAPITAL STOCK:			
AMERICAN POWER & LIGHT COMPANY (no par value):			
Preferred ($6), cumulative (entitled upon liquidation to $100 a share); pari passu with $5 preferred; authorized, 1,000,000 shares; outstanding, 793,581 2/10 shares, including 26 2/10 shares of scrip		$ 79,300,926.00	
$5 preferred, cumulative (entitled upon liquidation to $100 a share); pari passu with preferred ($6); authorized, 2,200,000 shares; outstanding, 978,444 shares		97,844,400.00	
Common; authorized, 4,000,000 shares; issued, 3,013,812 27/50 shares, less 5,301 shares reacquired and held by company; outstanding, 3,008,511 27/50 shares, including 2,013 27/50 shares of scrip		37,434,351.29	
SUBSIDIARIES:			
Preferred stocks—1,116,222 share (entitled upon liquidation to $100 a share)		111,622,200.00	
Common stocks—48,706 shares		424,696.65	
Total capital stock			$326,626,573.94
LONG-TERM DEBT:			
AMERICAN POWER & LIGHT COMPANY:			
Gold Debenture Bonds, American 6% Series, due March 1, 2016		$ 42,358,000.00	
Southwestern Power & Light Company, 6% Gold Debenture Bonds, Series A, due March 1, 2022		3,903,000.00	
SUBSIDIARIES:			
Mortgage bonds	$303,738,000.00		
Debentures	8,500,000.00		
Miscellaneous	200,750.00	312,438,750.00	
Total long-term debt			358,699,750.00
CURRENT AND ACCRUED LIABILITIES:			
Accounts payable:			
Associated companies		$ 328,416.72	
Others		2,531,511.14	
Customers' refunds		97,840.59	
Dividends declared		4,126,634.80	
Matured long-term debt and interest (cash in special deposits)		300,672.08	
Customers' deposits		4,965,830.99	
Taxes accrued		11,828,467.77	
Interest accrued (including $2,857,140.84 for which cash is in special deposits)		5,658,568.17	
Other current and accrued liabilities		376,057.05	
Total current and accrued liabilities (see note *)			30,213,998.81
DEFERRED CREDITS:			
Customers' advances for construction		$ 666,874.95	
Unamortized premium on debt		609,375.01	
Other		319,693.18	
Total deferred credits			1,595,943.14
RESERVES:			
Property retirement and depletion		$ 67,342,210.49	
Uncollectible accounts		1,114,918.20	
Inventory adjustment		509,206.45	
Insurance		903,565.55	
Injuries and damages		1,161,357.33	
Other		1,307,828.61	
Total reserves			72,339,086.63
CONTRIBUTIONS IN AID OF CONSTRUCTION			892,653.25
CONTINGENT LIABILITIES (contra)			397,184.02
UNDECLARED CUMULATIVE DIVIDENDS ON PREFERRED STOCKS OF SUBSIDIARIES HELD BY PUBLIC			8,233,331.86
MINORITY INTEREST IN SURPLUS OF SUBSIDIARIES			196,082.88
CAPITAL SURPLUS			36,025.64
EARNED SURPLUS, LESS AMOUNT ACCRUING TO MINORITY INTEREST			45,137,007.50
TOTAL			$844,367,637.67

Schedule V

AMERICAN POWER & LIGHT COMPANY

Comparative Statement of Income and Summary of Earned Surplus

Income

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	1940	1939	1940	1939
INCOME:				
From subsidiaries	$3,823,154	$4,100,414	$11,878,815	$11,645,9
Other	13,362	21,277	72,124	97,4
Total	$3,836,516	$4,121,691	$11,950,939	$11,743,3
EXPENSES, INCLUDING TAXES	240,164	147,340	648,579	455,2
BALANCE BEFORE INTEREST AND OTHER DEDUCTIONS	$3,596,352	$3,974,351	$11,302,360	$11,288,1
INTEREST AND OTHER DEDUCTIONS	707,116	711,726	2,833,623	2,892,9
NET INCOME	$2,889,236	$3,262,625	$ 8,468,737	$ 8,395,2

Summary of Earned Surplus

For the Twelve Months Ended December 31, 1940

EARNED SURPLUS, JANUARY 1, 1940	$10,259,143
ADD:	
Net income for the twelve months ended December 31, 1940	8,468,736
Adjustment of prior years taxes	22,050
Total	$18,749,930
DEDUCT:	
Dividends declared:	
Preferred stock ($6)—$5.25 a share	$ 4,166,217
$5 preferred stock—$4.37½ a share	4,280,772
Other debits	1,366
Total	$ 8,448,356
EARNED SURPLUS, DECEMBER 31, 1940	$10,301,573

Schedule VII

AMERICAN POWER & LIGHT COMPANY AND SUBSIDIARIES

Comparative Statement of Consolidated Income

Subsidiaries	Three Months Ended December 31, 1940	Three Months Ended December 31, 1939	Twelve Months Ended December 31, 1940	Twelve Months Ended December 31, 1939
Operating revenues	$27,640,280	$26,193,523	$108,221,998	$101,500,043
Operating revenue deductions:				
Operating expenses, excluding direct taxes	$10,534,594	$10,204,332	$ 41,862,950	$ 39,712,959
Direct taxes	5,420,088	3,677,378	*17,762,464	14,593,515
Property retirement and depletion reserve appropriations	2,851,159	2,608,505	10,720,240	10,040,727
Total operating revenue deductions	$18,805,841	$16,490,215	$ 70,345,654	$ 64,347,201
Net operating revenues	$ 8,834,439	$ 9,703,308	$ 37,876,344	$ 37,152,842
Other income (net)	43,409	74,440	110,552	158,242
Gross income	$ 8,877,848	$ 9,777,748	$ 37,986,896	$ 37,311,084
Interest to public and other deductions	$ 3,982,671	$ 3,970,535	$ 15,827,284	$ 15,940,046
Less interest charged to construction	38,483	2,628	63,284	14,361
Net interest to public and other deductions	$ 3,944,188	$ 3,967,907	$ 15,764,000	$ 15,925,685
Balance	$ 4,933,660	$ 5,809,841	$ 22,222,896	$ 21,385,399
Preferred dividends to public (full dividend requirements applicable to respective periods whether earned or unearned)	1,792,936	1,792,459	7,171,742	7,169,835
Balance	$ 3,140,724	$ 4,017,382	$ 15,051,154	$ 14,215,564
Portion applicable to minority interests	13,503	13,706	54,164	61,743
Net equity of American Power & Light Company in income of subsidiaries	$ 3,127,221	$ 4,003,676	$ 14,996,990	$ 14,153,821
American Power & Light Company				
Net equity of American Power & Light Company in income of subsidiaries (as shown above)	$ 3,127,221	$ 4,003,676	$ 14,996,990	$ 14,153,821
Other income	13,362	21,277	72,124	97,408
Total	$ 3,140,583	$ 4,024,953	$ 15,069,114	$ 14,251,229
Expenses, including taxes	240,164	147,340	648,579	455,217
Balance before interest and other deductions	$ 2,900,419	$ 3,877,613	$ 14,420,535	$ 13,796,012
Interest and other deductions	707,116	711,726	2,833,623	2,892,903
Balance carried to consolidated earned surplus	$ 2,193,303	$ 3,165,887	$ 11,586,912	$ 10,903,109

NOTES:

All intercompany transactions have been eliminated from the above statement. Interest and preferred dividend deductions of subsidiaries represent full requirements for the respective periods (whether paid or not paid) on securities held by the public. The "Portion applicable to minority interests" is the calculated portion of the balance of income applicable to minority holdings by the public of common stock of subsidiaries. The "Net equity of American Power & Light Company in income of subsidiaries" includes interest and preferred dividends paid or earned on securities held, plus the proportion of earnings which accrued to common stocks held by American Power & Light Company, less losses where income accounts of individual subsidiaries have resulted in deficits for the respective periods.

* Includes provisions of $815,490.00 for Federal excess profits tax.

Schedule VIII

AMERICAN POWER & LIGHT COMPANY

Common Stock Capitalization and Earnings of Principal Subsidiaries

1939-1940

Subsidiary	Common Stock: Shares Owned by A. P. & L. Co.	Common Stock: Par Value	Earnings Applicable to Common Owned by A. P. & L. Co. (Thousands): 1939	1940
Pacific Power & Light Company and Subsidiary	1,000,000	N.P.	$ 427	$ 395
Northwestern Electric Company	100,000	$ 35	292	126
Portland Gas & Coke Company	311,119	N.P.	—	—
The Washington Water Power Company and Subsidiary	2,533,840	N.P.	2,411	2,189
The Montana Power Company and Subsidiaries	2,475,583	N.P.	2,287	2,959
TOTAL NORTHWEST GROUP			$ 5,417	$ 5,669
Texas Power & Light Company	4,000,000	N.P.	$ 1,407	$ 1,114
Texas Electric Service Company	5,999,900	N.P.	999	872
Texas Public Utilities Corporation	9,998	N.P.	—	—
New Mexico Electric Service Company	37,497	N.P.	84	67
TOTAL TEXAS GROUP			$ 2,490	$ 2,053
Kansas Gas and Electric Company	600,000	N.P.	$ 671	$ 1,067
Nebraska Power Company	965,991	N.P.	1,235	1,135
TOTAL KANSAS-NEBRASKA GROUP			$ 1,906	$ 2,202
Minnesota Power & Light Company	1,999,990	$ 10	$ 383	$ 349
Northern Power Company	247	$100	—	—
Superior Water, Light and Power Company	4,995	$100	85	75
TOTAL MINNESOTA-SUPERIOR GROUP			$ 468	$ 424
Central Arizona Light and Power Company	840,000	N.P.	$ 765	$ 743
Florida Power & Light Company and Subsidiaries	(a)2,500,000	N.P.	$ 357	$ 1,329
TOTAL ALL COMPANIES ABOVE			$11,403	$12,420

(a) Earnings shown are those accruing to American Power & Light Company's ownership of entire second preferred and common stock of Florida Power & Light Company.

AMERICAN POWER & LIGHT COMPANY

Summary of Plant Account and Capitalization of Public Utility Subsidiaries

December 31, 1940

(Thousands of Dollars)

Subsidiary	PLANT			CAPITALIZATION					
				Long-term Debt		Preferred Stock		Common Stock	
	Plant Account	Reserve for Property Retirement	Plant Less Reserve	Amount	% Plant Less Reserve	Amount	% Plant Less Reserve	Amount	% Plant Less Reserve
Pacific Power & Light Company and Subsidiary	$ 44,820	$ 5,363	$ 39,457	$ 23,295	59.0	$ 6,869	17.3	$ 7,000	17.7
Northwestern Electric Company	21,467	3,004	18,463	9,360	50.7	4,815	26.1	3,500	18.9
Portland Gas & Coke Company	22,340	2,737	19,603	9,736	49.6	6,329	32.3	4,113	20.9
The Washington Water Power Company and Subsidiary	69,559	11,018	58,541	22,000	37.6	10,366	17.7	25,418	43.4
The Montana Power Company and Subsidiaries	149,739	11,185	138,554	60,079	43.3	15,869	11.4	49,633	35.8
TOTAL NORTHWEST GROUP	$307,925	$33,307	$274,618	$124,470	45.3	$44,248	16.1	$ 89,664	32.6
Texas Power & Light Company	$ 82,426	$ 4,084	$ 78,342	$ 43,650	55.7	$13,444	17.2	$ 20,000	25.5
Texas Electric Service Company	76,485	6,372	70,113	33,730	48.1	6,455	9.2	30,000	42.8
Texas Public Utilities Corporation	3,300	353	2,947	2,830(a)	96.0	—		100	3.4
New Mexico Electric Service Company	1,565	87	1,478	577(a)	39.0	—		750	50.8
TOTAL TEXAS GROUP	$163,776	$10,896	$152,880	$ 80,787	52.8	$19,899	13.0	$ 50,850	33.2
Kansas Gas and Electric Company	$ 34,943	$ 3,492	$ 31,451	$ 19,000	60.4	$ 8,227	26.1	$ 6,000	19.1
Nebraska Power Company	38,469	3,729	34,740	20,000	57.5	7,500	21.5	5,000	14.4
TOTAL KANSAS-NEBRASKA GROUP	$ 73,412	$ 7,221	$ 66,191	$ 39,000	58.9	$15,727	23.7	$ 11,000	16.6
Minnesota Power & Light Company	$ 77,945	$ 5,756	$ 72,189	$ 33,924	47.0	$14,673	20.3	$ 20,000	27.7
Northern Power Company	730	8	722	794(a)	110.0	—		25	3.4
Superior Water, Light and Power Company	4,859	853	4,006	1,745	43.5	500	12.5	500	12.5
TOTAL MINNESOTA-SUPERIOR GROUP	$ 83,534	$ 6,617	$ 76,917	$ 36,463	47.4	$15,173	19.7	$ 20,525	26.7
Central Arizona Light and Power Company	$ 15,337	$ 3,469	$ 11,868	$ 6,500	54.8	$ 1,722	14.5	$ 2,535	21.3
Florida Power & Light Company and Subsidiaries	$135,464	$ 5,832	$129,632	$ 74,000	57.7	$17,000	13.1	$ 31,954(b)	24.6
TOTAL ALL COMPANIES ABOVE	$779,448	$67,342	$712,106	$361,220	50.7	$113,769	15.9	$206,528	29.0

(a) Represents notes payable of this wholly owned company to American Power & Light Company.

(b) Includes Second Preferred Stock as well as the Common Stock.

Schedule X

AMERICAN POWER & LIGHT COMPANY

Income from Preferred Dividends and Interest

Years 1939-1940

	Security	1939	1940
Preferred Stocks:			
Florida Power & Light Company	Preferred stocks	$ 135,079	$ 192,924
Minnesota Power & Light Company	Preferred stocks	15,579	12,673
Superior Water, Light and Power Company	Preferred stock	11,641	11,641
Total preferred dividends		$ 162,299	$ 217,238
Bonds, Debentures and Other Obligations:			
Florida Power & Light Company	Debentures	$1,320,000	$1,320,000
Florida Power & Light Company	Note	36,737	—
Glacier Production Company	Notes and advances	18,656	56,363
Kansas Gas and Electric Company	Note	1,464	611
The Montana Power Company	Debentures	529,495	529,495
The Montana Power Company	Note	18,625	1,250
New Mexico Electric Service Company	Note and advances	35,328	35,197
Northwestern Electric Company	Debentures	22,750	13,038
Northwestern Electric Company	Loan	140,877	—
Pacific Power & Light Company	Note	167,065	167,670
Superior Water, Light and Power Company	Loan	82,936	83,163
Texas Power & Light Company	Mortgage bonds	232,750	232,750
Texas Power & Light Company	Notes	51,467	—
Texas Public Utilities Corporation	Notes	105,794	22,048
Utilities Land Company	Notes and loan	18,311	22,456
Total		$2,782,255	$2,596,041
Temporary short term investments		$ 97,409	$ 72,123
Total interest and preferred dividends		$3,041,963	$2,885,402

NOTE:

If adjustment be made to include dividends on preferred stocks of Florida Power & Light Company and Minnesota Power & Light Company at the regular annual rates, instead of at the rates actually paid during those years, the total interest and preferred dividends for 1939 would equal $3,058,317 and for 1940, $2,846,817.

Schedule XI

AMERICAN POWER & LIGHT COMPANY

Yearly Income from Preferred Dividends and Interest on the Basis of Holdings at December 31, 1940

	Security	Amount	Rate	Income
Preferred Stocks:				
Florida Power & Light Company	Preferred Stock	10,000 Shs.	$6	$ 60,000
	Preferred Stock	13,477 Shs.	$7	94,339
Minnesota Power & Light Company	Preferred Stock	225 Shs.	6%	1,350
	Preferred Stock	878 Shs.	$6	5,268
	Preferred Stock	865 Shs.	7%	6,055
Superior Water, Light and Power Company	Preferred Stock	1,663 Shs.	7%	11,641
		27,108 Shs.		
Total preferred at $100 per share		$ 2,710,800		
Total preferred dividends				$ 178,653
Bonds, Debentures and Other Obligations:				
Florida Power & Light Company	Debentures	$22,000,000	6%	$1,320,000
Glacier Production Company	Advance	600,000	4½%	27,000
	Note	750,000	4½%	33,750
The Montana Power Company	Debentures	10,589,900	5%	529,495
New Mexico Electric Service Company	Note and Advances	577,000	6%	34,620
Northwestern Electric Company	Debentures	2,660,000	4½%	119,700
Pacific Power & Light Company	Note	2,794,500	6%	167,670
Superior Water, Light and Power Company	Demand Loans	1,636,000	5%	81,800
Texas Power & Light Company	Mortgage Bonds	4,900,000	4¾%	232,750
Texas Public Utilities Corporation	Note	330,000	6%	19,800
Utilities Land Company	Note and Loan	301,000	6%	18,060
Total bonds, debentures and other obligations		$47,138,400		
Total interest				$2,584,645
Temporary short term investments	U. S. Government obligations	$ 2,011,173	(Estimated)	$ 40,000
	State, municipal and other short term securities	8,315,186		
Other current assets, less current liabilities		5,315,237		
Total net current assets		$15,641,596		
Total securities (as above) and net current assets		$65,490,796		
Total interest and preferred dividends				$2,803,298

EXHIBIT 2.

American Power & Light Company
Two Rector Street, New York

July 23, 1941

To the Stockholders:

The Board of Directors has authorized me to report to you concerning the present problems confronting us as directors and you as stockholders which arise from the proceedings involving your Company being conducted by the Securities and Exchange Commission under Section 11 of the Holding Company Act of 1935. Soon after the introduction in Congress of the bills which resulted in passage of the Act, stockholders were advised by special letter of March 4, 1935, of the introduction of these bills and that their purpose was to "compel the liquidation of your Company and other similar holding companies" and of the impact of the Act upon their investment. The warning was repeated in the annual report for 1934, dated June 7, 1935. In the report for 1936 it was stated "the continued existence of your Company at least in its present form, is endangered if the major provisions of the Act are held valid and applied to your Company." In the annual reports for 1939 and 1940, stockholders have been advised of the present proceedings under the Act.

Before approaching the immediate problems it may be well briefly to review the history and accomplishments of your Company.

Organization

In 1905 the General Electric Company organized the Electric Bond and Share Company to take over the securities of certain public utilities which had been acquired by the General Electric Company in connection with the sale of electrical apparatus to these utilities. The General Electric Company had difficulty in disposing of these securities

due to the general unpopularity of such securities with investors. Public utilities, especially those in small communities remote from financial centers, found it very hard to raise funds and particularly equity money for their expansion through the sale of their own securities to the public. Pursuant to the plan of corporate structure set up for the financing of these utilities, Electric Bond and Share Company organized American Power & Light Company, over thirty-one years ago, as one of its holding company subsidiaries, for the purpose of financing the acquisition and development of public utility companies including certain of those which had been acquired from the General Electric Company. The properties first so acquired were several small electric and gas properties in the states of Kansas and Oregon having a combined annual gross revenue of about two and a half million dollars.

Ownership

The Common and Preferred stocks of American Power & Light Company (sometimes called American in this letter) are owned by some 34,000 stockholders who are located in all the states of the United States, in five of its foreign possessions and in twenty-five foreign countries. Electric Bond and Share Company is the largest of these stockholders. It owns 20.7% of the outstanding shares of stock. More than half of these stockholders own 25 shares or less each and only three-tenths of one per cent of them own 500 shares or more each. The largest stockholder, other than Electric Bond and Share Company, owns about six-tenths of one per cent of the outstanding stock of American.

Growth of American

From the small beginning in 1909 American continued to grow and prosper through the acquisition of additional properties, their development and expansion. This growth and development may be visualized from the few follow-

ing facts, given in approximate round figures, embracing American and its subsidiaries:

	1910	1940
Number of Operating Utility Direct Subsidiaries	3	16
Number of Companies and Properties Acquired and Consolidated to Comprise the above Subsidiaries	10	427
Number of Communities Served	41	1,447
Number of Employees	500	14,000
Population Served	403,000	3,929,000
Number of Gas and Electric Customers	55,000	1,067,000
Total Generating Capacity in Kilowatts	27,000	1,430,000
Gross Annual Revenues Consolidated	$2,500,000	$108,000,000

Record of Earnings

What has been the record of earnings for the investor in the securities of American Power & Light Company and its subsidiaries during this period?

Interest Payments

1. There has never been a default by American Power & Light Company or any of its utility subsidiaries in the payment of interest on any bond, debenture, loan, note or other interest-bearing security outstanding with the public. Every dollar of such interest, totaling some $270,000,000 has been paid punctually on the due date.

Payment of Principal of Bonds and Debentures

2. Bonds and debentures in the principal amount of some $600,000,000 have been sold to the public by American and its subsidiaries or were outstanding at the time of the acquisition of subsidiaries. Of these, all maturing obligations have been paid on or before the maturity date except three issues with a total principal amount of some $22,000,000, the maturities of which

have been extended for a period of time. The three extensions were caused by the maturities coming at a time when the operating companies had not recovered from the effects of the recent long depression. Of these three, one was paid before the extended maturity date, and the other two have about nine years to run to maturity.

Payment by Subsidiaries of Preferred Dividends

3. There are outstanding in the hands of the public preferred stocks of American's subsidiaries in the amount of some $110,000,000. American's subsidiaries have paid some $100,000,000 in preferred dividends to the public. From 1909 to 1932 dividends were paid quarterly in full on every share of such stocks. During the recent depression and beginning in 1932 and 1933, four of the electric subsidiaries and one gas subsidiary deferred certain preferred stock dividends for a period. The deferring of these dividends was largely due to the necessity for conserving cash for construction needs during the period when public financing for such needs was practically impossible. All of the arrears on such preferred stocks of the electric subsidiaries have been paid. There remains only the gas subsidiary with any arrears on its preferred stock. American has recently made further investment of $600,000 in the common stock of this gas subsidiary to assist the expansion of its chemical by-products plant with the hope of revitalizing its business.

Payment of Dividends by American

4. American itself earned and paid full dividends for twenty-three years, from 1909 to 1933, on its outstanding preferred stock and paid common dividends from 1913 to 1932. Since January 1, 1933 American

has paid partial preferred stock dividends which have averaged about 60% of the full rates, and in 1939 and 1940 paid 87% and 87½% of the full rates, but, of course, it has paid no common dividends since 1932. Since its organization American has paid in cash a total of some $97,000,000 as preferred stock dividends and has paid in cash and stock some $38,600,000 as common stock dividends. The failure to pay the full preferred dividends in recent years, following the partial recovery of business from the darkest depression period, has been largely attributable to two causes, the increased burden of taxation and the direct or threatened competition with hydro-electric projects constructed with funds furnished by our Federal Government. American's subsidiaries have had to face such competition where, without deduction of partial costs allocated to other purposes, some $44,000,000 of Federal funds have been expanded in Texas to build hydro-electric projects on the Brazos and Colorado Rivers, $60,000,000 have been spent on Nebraska hydro-electric projects and $300,000,000, exclusive of cost of future irrigation works, will have been spent on the Bonneville and Grand Coulee projects in Washington and Oregon which will have a capacity of some two and one-half million kilowatts of hydro-electric power.

Under normal conditions and with a fair solution of the difficulties arising from competition with Federally financed projects and from the problems with other Government agencies, there would be reason to hope that American could be restored to a full preferred dividend paying basis, with arrears compensated for, and that thereafter there could be a resumption of common dividends.

Therefore, viewed as a whole and over the long period of thirty-one years of American's existence, it would appear that what American has produced and developed as a business enterprise has been exceptionally successful from the standpoint of the investor in the enterprise.

Benefits to the Public

What public service has been rendered during this period?

From the small beginning with the inefficient isolated plants and systems of 1909, there have been built large hydro-electric and steam plants of modern and efficient design. There are 36,000 miles of distribution lines and 10,000 miles of transmission lines which serve and interconnect these systems. American has been one of the leaders of the country in the construction of high voltage transmission lines. At the present time, when demand is being made by Government authorities for more high voltage transmission lines in the interest of conservation of our national power resources, it is found that American's system has over four times as many miles of such lines per kilowatt of generating capacity for the interconnection of its own system and for interconnection with other systems as the average for the entire electric utility industry in the United States. The service has been reliable, continuous and ample to meet all demands made upon American's subsidiaries. The properties have been kept abreast of the rapid improvement of the art and have been well maintained and operated by a large and efficient organization, now consisting of some 14,000 employees. The use of the service has been continuously expanded with inestimable social benefits and the cost of the service has been continuously and greatly reduced. The average rate for residential service on American's system has been reduced from 12.4¢ per kwh in 1910 to 3.5¢ per kwh in 1940. Rate

reductions even during the last five years of rapidly rising taxes and other costs have totaled some $11,000,000 of annual savings to the customers of the subsidiaries of American.

Where This Has Been Done

These accomplishments have not been in the thickly settled portion of our country. American's subsidiaries serve largely the smaller cities, towns, villages and hamlets. They serve electricity to a total of 1,354 communities, 1,205 of them having a population of less than 2,500 each and only 7 having over 100,000 of which the largest has a population of about 300,000. They are located in widely different sections of the country. It has been demonstrated that the different kinds of businesses, crops and industries in widely separated sections give to American and its family of subsidiaries a valuable diversity and, therefore, stability, and it has been considered that this more than offsets any disadvantage incident to the distance between these properties. For example, if the wheat crop in Kansas should be poor, thus adversely affecting the earnings of the Kansas subsidiary, the earnings of other subsidiaries may counteract such effect since they are largely dependent upon such factors as the cotton crop in Texas, the tourist trade of Florida, the iron ore production in Minnesota, or copper production in Montana.

But what have been the achievements of American Power & Light Company and its subsidiaries during the last ten years—the period of the great national depression and partial recovery?

Progress Toward Recovery in Recent Years

These subsidiaries have been able to meet unavoidable increases in operating costs. They have borne a staggering increase in taxes. These taxes have increased from

$7,800,000 in 1930 to $17,800,000 in 1940. This increased tax burden alone is more than equal to full annual dividends on American's preferred stock or it is equal to some $3.30 per annum on each share of its common stock. The physical properties have been maintained in first class condition and have been expanded to meet the public need. Over $48,000,000 have been spent and added to the plant accounts of the subsidiaries during the past eight years while, during the same period, the debt has been reduced by almost $10,000,000. Reserves for the replacement of property have been increased some $35,000,000 during the past decade. Rates to the consumers have been reduced constantly and for a long period of years have been substantially less than the national average in spite of the fact that American's subsidiaries serve chiefly parts of the country with a low density of population, and sparsely settled areas generally are more expensive to serve than densely populated areas with the exception of the largest cities having great underground distribution systems. Although rate reductions affecting annual revenues have totaled over $14,500,000 in the past ten years, the annual gross revenues of the American system have increased from $87,000,000 to $108,000,000, or 24% and the record of earnings, interest and dividend payments has been creditable, as recited above. There are some $37,000,000 of cash and cash equivalent securities in the treasuries of the American system and of this amount American alone has some $16,000,000.

Physical Assets Back of American's Investment

There are outstanding and owned by the public some $46,000,000 of American's long term debt, some 1,770,000 shares of its non par preferred stock and some 3,000,000 shares of its non par common stock. The stock and debentures are held by some 45,000 security holders. These

securities represent capital of some $260,000,000 on American's books, largely invested in the securities of its subsidiary operating utility companies. The aggregate of the plant accounts of these subsidiaries is $780,000,000 and their total assets $836,000,000. If there be deducted from such total assets the amounts of all debts, capital stock and liabilities outstanding, which are not owned by American, and also all reserves for the replacement of property and for other purposes, there remains some $303,000,000 of stated value on the books of American's subsidiaries against American's investment in these subsidiaries. In other words, after providing for all their liabilities, the stated plant account and assets of American's subsidiaries more than support the full stated value of all of American's outstanding securities.

It may be asked how real and substantial are the assets of these subsidiaries that support the full stated value of American's investments. The amounts placed on the books of certain of American's subsidiaries as representing the value of the plants acquired at the time of acquisition by these subsidiaries were substantially greater than the cost to American of the individual properties acquired. The amounts so recorded represented the value stated for such plants, all elements of value considered. They have in the aggregate earned a reasonable return on such values and, if the properties were to be reproduced today, estimates indicate that the cost of such reproduction in the aggregate would be substantially greater than the amounts on the books of the subsidiaries for plant and property. The values inherent in the plant accounts of American's subsidiaries at present costs of reproduction less depreciation have thus been estimated by engineers to be in the aggregate substantially in excess of the amount necessary fully to support American's stated investment in these sub-

sidiary companies after full provision for all claims of other security holders of such subsidiary companies.

This briefly is the thirty-one year record and the present status of a solvent and successful business enterprise. American is in a strong cash position and is able and willing to devote its resources in assisting its subsidiaries to supply electric power for essential national defense purposes in many parts of the country. Your Company has contributed in a large way to the welfare of the nation, to the communities and peoples served, to its large body of employees and also to the investors who have furnished the capital to make all of this possible.

Notwithstanding these favorable facts, your Company is faced with a very uncertain future, occasioned chiefly by the impact of the Public Utility Holding Company Act and particularly Section 11 thereof.

The Public Utility Holding Company Act

The Public Utility Holding Company Act was passed in August, 1935. Section 11 of the Act provides briefly, (1) that public utility holding companies may control only a single "integrated public utility system", and such additional systems as the Commission may permit them to retain on finding that they conform to certain specified requirements and (2) that the Commission shall require holding companies and their subsidiaries to take such steps as the Commission shall find necessary to insure that the corporate structure or continued existence of any company in the system does not "unduly or unnecessarily complicate the structure, or unfairly or inequitably distribute voting power" among security holders of the system. The requirements of additional systems which a company may be permitted to retain are that (A) each of such systems cannot be operated independently without the loss of substantial economies; (B) all such additional systems are

located in one state or in adjoining states; and (C) the combination of the systems is not so large as to impair localized management, efficient operation or effective regulation.

"Integration" Provisions of Act

With respect to the economic or political philosophy underlying the legislation, it may be said that, as originally introduced in Congress, the bill was predicated upon the hypothesis that the public utility holding company was intrinsically an evil thing and should be destroyed. While the Act was under consideration by Congress, this view became radically changed and, in the form as ultimately passed, the Act is based upon the theory that specific practices of public utility holding companies have been or may be detrimental to the public welfare and that, to eliminate abuses, the public utility holding company should be federally regulated and its operations confined by geographical and economic limitations to be specifically defined by the Commission. Consequently, the Act established a rigorous system of regulation of holding companies and their subsidiaries by the Commission, particularly in financial matters, and in addition thereto, provided in Section 11, as above stated, for the limitation of the field of individual holding company operations to "a single integrated public utility system" and such permissive additional systems as should meet the standards above described

Section 11, with other related sections of the Act, leaves wide latitude of interpretation to the discretion of the Commission in defining the limits of integrated public utility systems. Until recently it was hoped and widely believed in the industry that the Commission, recognizing the ever widening territorial and economic boundaries in which single systems could efficiently function, would adopt an interpretation of this section which would permit the

creation of major regional systems, whose size would be limited only upon proof that greater economies, more effective regulation or more advantageous management would result from such limitation of size. However, the positions so far taken by the Commission's staff in many cases indicate an interpretation of the statute which would confine the limits of individual holding company operations to a much narrower field.

Registration Under Act

The Act requires public utility holding companies to register with the Commission. After litigation concerning the constitutionality of the Act as a whole, the United States Supreme Court, in March 1938, held the registration provisions of the Act to be constitutional, but declined to pass on other provisions of the Act. Accordingly your Company registered with the Commission.

Plan for Integration Filed 1938

American Power & Light Company in November, 1938, filed with the Commission a comprehensive, though tentative, plan of integration of electric utility properties in its system as part of a general integration plan for properties in the Electric Bond and Share System. This plan envisaged the creation from the present Electric Bond and Share System of three major integrated electric systems located generally in the North Central States and Atlantic Seaboard, the South Central States, and the Pacific Northwestern States, regardless of intermediate holding company ownership of the constituent parts of the system. It was believed that if some such systems as proposed were created, your Company would properly play an important part in their creation, and probably in the subsequent control and administration of one of the resulting integrated systems and that, given the physical basis upon which the

corporate structure should rest, any necessary or desirable readjustment of corporate structure could be made. However, no opportunity has been afforded to obtain a solution of the problems on the basis of the plan of integration proposed in November, 1938.

Present Proceedings Under Section 11 of Act

In 1940 the Commission instituted proceedings against your Company and associated holding companies under the integration provisions and the provisions relating to simplicity of corporate structures of the Act. While no hearings have been held with respect to the former, extensive hearings have been held under the latter and are still in progress. In this latter case the issue is presently confined to whether the corporate existence of your Company should be discontinued to insure simplicity of structure and fair distribution of voting power in Electric Bond and Share Company system.

While the Supreme Court has not passed on the constitutionality of Section 11 of the Act and expressly left the question open for later determination if it should be raised, counsel are of the opinion, whatever doubts or convictions may be entertained as to the constitutionality of this section, that, in the existing circumstances, it is desirable to endeavor to arrive at some reasonable plan of compliance with the section which will preserve for the stockholders the substantial values in the Company's holdings. Counsel, therefore, has recommended to your Board of Directors the filing of a Plan with the Commission to achieve such objectives.

Counsel are further of the opinion that unless some such plan as here proposed is approved and adopted, and if the Commission should order the dissolution of your Company in the present proceedings and be sustained by the courts, there may result a sale of all its assets, and a distribution,

first, in payment of debt, second, to preferred stock, including arrearages, and the balance, if any, to the common stock.

Your Board of Directors is of the opinion that, in view of the distressed world conditions, the disruption of our domestic economy caused by the war and the defense program and the absence of satisfactory markets for securities, such a dissolution would result in sacrifice of values in the Company's holdings to the detriment of both preferred and common stockholders. Accordingly, your Directors have filed a Plan with the Securities and Exchange Commission and it is desired here to give its general tenor and the practical reasons which, in the opinion of your Directors, made such action desirable. No such plan can become operative until it has been approved by the Securities and Exchange Commission and then approved by stockholders.

It is anticipated that under the Plan it will be possible to exchange securities of certain of the subsidiaries which are held by American Company for some of the presently outstanding securities of American Company, or to sell only such limited amount of American Company's assets as may be found desirable for the discharge of part or all of American Company's debt or to such other extent as may be in the interest of stockholders of American Company, and thereby the losses would be substantially less than would result from a sale of all of American Company's assets under present market and world conditions. After such limited exchange or sale of securities, and the determination of such integrated public utility system or systems as American Company may be entitled to retain, the Plan proposes, in effect, to distribute the remaining securities, consisting principally of investments in the stocks of public utility subsidiaries, to the stockholders of American Company in proportion to their rights as determined upon the reclassification of stock.

The Plan proposes, in brief:

Outline of Plan

The present stock capitalization of American Power & Light Company shall be revised to consist of a single class of common stock. This stock shall be issued to present preferred stockholders on the basis of one share of new common stock (or a convenient multiple or fraction of such share) for each presently outstanding share of preferred stock, and an additional share of new common stock (or convenient multiples or fractions thereof) for each $100 of arrearages on the present preferred stock, calculated to the effective date of the Plan. Whether any differential shall be allowed in favor of the $6 Preferred Stock over the $5 Preferred Stock, in addition to the greater number of shares resulting from larger dividend arrearages, is left for future determination. The present Common Stock is to be awarded such participation in the new common stock as may be determined to be fair and equitable. The exact amount of differential, if any, to be awarded the $6 Preferred Stock over the $5 Preferred Stock and the amount of participation to be awarded the Common Stock will be determined as work on the Plan progresses.

The funded debt of the Company is to be discharged or otherwise provided for from available cash on hand and the sale or exchange of securities in the Company's portfolio.

Upon the completion of the recapitalization and discharge or provision for the funded debt, the Company will select and retain from its present systems such "integrated public utility system", or systems, as it may be entitled to retain under the Public Utility Holding Company Act, and will distribute the stocks

of the remaining subsidiaries to the holders of the new capital stock in proportion to their respective holdings, either directly or through the creation of such new companies, or combinations of existing companies, as may be found desirable and practicable. As a result, present stockholders will have certificates for shares or fractional shares of stock in the reorganized Company and in the other companies, not sold or exchanged, proportionate to their present holdings as reflected in the reclassified stock.

The Plan is not to become effective except upon approval of the Securities and Exchange Commission and the vote of 90% of the Company's $6 Preferred Stock, of 90% of the Company's $5 Preferred Stock and of a majority of the Common Stock.

Selection of "Integrated System" by American Company

In the two proceedings presently pending before the Commission, it is, in effect, charged that the operations of your Company are not confined to a single integrated public utility system and such additional systems as the Company may be permitted to retain under Section 11 (b) (1) of the Act, and that the interposition of your Company as an intermediate holding company in the Electric Bond and Share Company system complicates the corporate structure of that system and unfairly distributes voting power among security holders.

With respect to the first of these charges, it must be said that considering American Company and its subsidiaries as a system separate from Electric Bond and Share Company, it is obvious that American Company as now constituted cannot meet the statutory test of a single integrated system and additional systems in adjoining states.

A fundamental concept in the development of your Company was to diversify its holding so as to distribute the risk

of the equity capital over as wide a territory as possible. With this object consciously in view, it created or acquired public utility companies in states as widely separated as Oregon and Washington in the northwest, Florida in the southeast, Minnesota in the north, and Texas in the south, with other companies in central and western states. Therefore, if a comprehensive integration plan of Electric Bond and Share Company may not be consummated, and American Company is to continue its existence as a holding company, it must select from its operating properties a group of public utilities which may be found to constitute a single integrated system with such additional systems "in adjoining states" as it may be permitted to retain.

No final determination has as yet been made as to the interpretation of the phrase "in adjoining states", that is to say, whether the additional systems must be in states adjoining the principal system, or need merely be in states adjoining each other. Consequently, the Plan as filed with the Commission does not attempt to make a definitive selection of the systems to be retained by American Company, and claims the right to select such system, or systems, as it may be entitled to retain under such interpretation of the Act as may eventually be adopted and confirmed.

Briefly, it may be said that the Company claims in its Plan that its system comprises six integrated public utility systems consisting of the Northwestern group of properties, the Texas group, the Kansas-Nebraska group, the Minnesota-Superior group, Florida Power & Light Company and Central Arizona Light and Power Company, and claims the right to elect any two of these groups as the integrated systems which it is entitled to retain.

Whether these claims of the Company, either as to the composition of its systems, or as to the number which it may retain, may be sustained by the Commission cannot

presently be forecast. In any event, it is obvious that the Company will be required to dispose of a number of its present subsidiaries and that its future operations will of necessity be greatly curtailed.

Proposed Reclassification of Stock

With respect to the claim by the Commission of system complication and unfair distribution of voting power, it may be said that, without admitting or weighing the charges made, a reclassification of stock into a single class of common stock appears to be necessary if the corporate existence of the Company is to continue and if the values, which the Company's executives and directors believe inhere in its holdings, are to be preserved for the present security holders.

It would be a very difficult task to attempt to divide the interests in subsidiaries between preferred and common stockholders of American Company under the present stock capitalization. Therefore, as a first step, and before attempting to make a determination of the integrated systems and an election of which systems shall be retained by American Company and which distributed to stockholders, the Plan proposes a reclassification of American Company's present stock capital into a single class of common stock, in which the preferred would be recognized as having the first claim on account of its liquidating rights, including accumulated arrearages (with such differential, if any, as may be allowed the $6 Preferred Stock over the $5 Preferred Stock) and the Common Stock would be accorded such recognition as it is entitled after according full satisfaction on an equitable basis to the claims of the preferred.

No attempt is made in the Plan to determine the relative or proportionate interests of the two classes of preferred, or of the preferred and common stocks, but that question is left for factual determination, approval of the Commission

and vote of the stockholders. In such a readjustment, the preferred stock will of necessity surrender its preferences, but the common stock, in turn, will surrender its control.

This Company has been created and developed under the established law of the land which, with respect to the value of public utility properties, has been that the present fair value of used and useful property is the value on which a utility is entitled to earn a fair return. In recent years theories have been advanced which are at variance with such concept of value and which are based upon the cost, or estimate of cost, to the first individual who employed the capital to construct the utility property, or are based upon a concept of value predicated upon immediately past and immediately prospective earnings. If such basic change in the concept of value should prevail, such change might deprive investors, and especially equity investors, of substantial values in reorganization under Section 11 of the Act. The basic concept of value, as embodied in the established law, is, therefore, of great importance to investors, irrespective of the method employed in any such reorganization.

Conditions Unfavorable for Reorganization

Section 11 of the Act states that the steps required should be taken "as soon as practicable after January 1, 1938". The enforcement of the Act was held largely in abeyance until April, 1938, by reason of the constitutional test case above mentioned. By the following Fall, the "integration plan" above mentioned was formally presented to the Commission. No consideration has been given to that plan and the present move to enforce Section 11 by breaking up public utility holding company systems was instituted in the Spring of 1940.

In the meantime, the world was plunged into war and serious effects on our domestic economy became inevitable.

While it is not the purpose here to challenge the political or economic philosophy of the Public Utility Holding Company Act, it cannot be believed that the Act, containing the provisions of Section 11, would be passed if the question were presented under present conditions, or that Congress ever conceived, in passing the Act, that it would be enforced under these present conditions. However, the Act remains on the books and the Chairman of the Commission has recently stated "The first and most important truth about our policy with respect to Section 11 is that we intend to enforce it". It is for these reasons that your Directors, solely in the interest of conserving for the security holders of American the maximum value possible under the circumstances, have presented a Plan.

While reasonable men may differ as to whether the principle of diversity of investment, such as has been employed by the American Company in its development, or a principle which would restrict operations to limited areas, as provided in the Act, should be the guiding criterion for public utility or holding company operations and may differ as to what concentration or distribution of control or stock votes should be established in corporate organization, it would seem that there should be no ground for any reasonable difference of opinion as to whether or not it is wise or practicable to enforce by rapid stages the breaking up of public utility systems and the reorganization of the corporate structures of holding companies under present conditions when the inherent values cannot be realized. The Act states in nearly every important section that it shall be administered "in the interest of consumers and investors". This gives rise to the hope that the Commission and the courts will grant adequate time for an orderly reorganization under this Plan.

Ultimate Dissolution Possible

Whether upon accomplishment of all the steps contemplated by the Plan the reorganized American should continue in a limited way to exist, or whether it should be dissolved and complete distribution of all its assets be made to stockholders, is a question which cannot be determined until more definitive construction has been given Section 11 of the Act, with particular reference to the subsidiary operating utility properties which may be retained by the reorganized company.

Reservation of Rights

The Plan has been submitted with full reservation of legal and constitutional rights of the Company, its subsidiaries and its and their security holders.

Proxies or Consents Not Solicited

The problems presented, if the Plan is approved by the Commission, are for determination of stockholders. In the interest of economy a copy of the Plan in its present form is not distributed to stockholders but may be obtained on request. This letter is for your information only. It is not a solicitation for any proxy, consent or authorization, or for your approval of the Plan herein described. No such action will be requested of stockholders unless and until the Plan is approved by the Securities and Exchange Commission and, in such event, a copy of the approved Plan will be distributed to stockholders.

Respectfully yours,

By order of the Board of Directors,

HOWARD L. ALLER, President.

EXHIBIT 3.

Resolutions

Resolutions of the Board of Directors of the Company authorizing the execution and filing of this Application and any and all amendments thereto.

This certifies that this is a true and complete copy of resolutions passed at a meeting of the Board of Directors of American Power & Light Company, held at 2 Rector Street, New York, N. Y., on July 23, 1941, at which a majority of such directors was present and voting throughout:

"RESOLVED that the officers of the Company be, and they hereby are, authorized and directed to prepare, or cause to be prepared, and to execute, verify and file with the Securities and Exchange Commission an Application pursuant to Section 11(e) of the Public Utility Holding Company Act of 1935, with amendment or amendments thereto, as prescribed by the Securities and Exchange Commission pursuant to said Act, with any and all exhibits and other instruments necessary or appropriate thereto; and further

RESOLVED that the officers of the Company be, and they hereby are, authorized and directed to take such other and further steps as in their opinion, and in the opinion of counsel for the Company, may be necessary or appropriate in aid and furtherance of the matters acted upon by the Board of Directors of the Company at this meeting as set forth in general in the resolutions adopted at this meeting."

The above resolutions have not been modified, altered or rescinded and remain in full force and effect.

WITNESS my hand and the seal of said Company this 23rd day of July, 1941.

(SEAL) D. W. JACK, Secretary

[Document No. 81.]

Copy Filed 12-6-41

Wright, Gordon, Zachry, Parlin & Cahill
(Cotton, Franklin, Wright & Gordon)
Sixty-three Wall Street, New York

December 5, 1941

Securities and Exchange Commission
1778 Pennsylvania Avenue
Washington, D. C.

Re: Electric Power & Light Corporation

Gentlemen:

Electric Power & Light Corporation is presently filing with the Commission its motion to consolidate wherein it asks that the Commission make an appropriate order consolidating the hearing upon the plan filed by Electric Power & Light Corporation pursuant to Section 11(e) of the Public Utility Holding Company Act of 1935 (File No. 54-41) with any further hearings relating to Electric Power & Light under the pending notice and order issued under Section 11(b)(2) of such Act (File No. 59-12). A copy of this motion to consolidate is attached hereto.

In the event that counsel for the Commission shall determine to oppose the grant of such motion, Electric Power & Light Corporation respectfully requests the Commission to order that oral argument be had on such motion and to fix the time for filing briefs or memoranda as to such motion.

Respectfully submitted,

Simpson, Thacher & Bartlett
By /S/ John F. MacLane

Reid & Priest
By /S/ Frank A. Reid

Wright, Gordon, Zachry, Parlin & Cahill
By /S/ Boykin C. Wright

Counsel for Electric Power & Light Corporation

[Document No. 82.]

United States of America

Before the Securities and Exchange Commission

In the Matter of

Electric Power & Light Corporation, Applicant.

File No. 54-41.

In the Matter of

Electric Bond and Share Company, American Power & Light Company, Pacific Power & Light Company, Electric Power & Light Corporation, Utah Power & Light Company, National Power & Light Company, Ebasco Services Incorporated, Respondents.

File No. 59-12.

MOTION TO CONSOLIDATE.

[Filed December 6, 1941.]

Electric Power & Light Corporation (hereinafter called "Electric"), the Applicant in the above entitled proceeding File No. 54-41, and one of the respondents in the above entitled proceeding File No. 59-12, moves to consolidate the above entitled proceedings in so far as said proceeding File No. 59-12 relates to Electric and to hold joint hearings in said proceedings and in support of said motion shows:

1. On or about February 28, 1940, a proceeding was instituted by the Commission entitled "In the Matter of Electric Bond and Share Company and its subsidiary companies, respondents, File No. 59-3" by the issue of a "Notice of and Order for hearing pursuant to Section 11(b)(1) of the Public Utility Holding Company Act of 1935". By said notice and order it was charged (Paragraph 136) that the holding company system of Electric Bond and Share Company is not confined in its operations to that of

a single integrated public utility system within the meaning of the Act and to such other businesses as are reasonably incidental or economically necessary or appropriate to the operations of such integrated public utility system.

By the allegations of such notice and order and by the terms of the order, the holding company systems of Electric and the other respondents in said proceeding were brought under review and all of said respondents were permitted to include in their answers their claims as to the action which should be required to be taken by any of them to limit their operations so as to meet the requirements of Section 11(b)(1) of the said Act.

Aside from certain motions and the filing of a joint answer by respondents (including Electric) no hearings have been had or further action taken by the Commission under said File No. 59-3.

2. On or about May 9, 1940, the Commission instituted a proceeding against Electric Bond and Share Company and Electric and other companies in the Electric Bond and Share Company system entitled "In the Matter of Electric Bond and Share Company" et al "File No. 59-12" by "Notice of and Order for hearing pursuant to Section 11(b) (2) of the Public Utility Holding Company Act of 1935" in which it was charged (Paragraphs 46-47) that "the structure of the holding company system of Electric Bond and Share Company is unduly and unnecessarily complicated", and "voting power is unfairly and inequitably distributed among security holders of said system of said Electric Bond and Share Company".

After certain motions and proceedings not here material, the Commission on June 7, 1940, issued an order limiting such proceeding initially "to the issue of whether it is necessary to discontinue the existence of American Power & Light Company, Electric Power & Light Corporation, National Power & Light Company and American & Foreign

Power Company, Inc., or any of them, in order to insure that the structure of the holding company system of the Electric Bond and Share Company shall not be unduly or unnecessarily complicated and that voting power shall not be unfairly or inequitably distributed among security holders of such system". By subsequent order dated June 17, 1940, the proceeding was dismissed as to American & Foreign Power Company, Inc.

3. Thereafter, commencing on June 18, 1940, and subject to various adjournments, from time to time, hearings have been had before an examiner of the Commission under said Notice and Order (File No. 59-12) as limited by said order of June 7, 1940, and later order, to the above mentioned issues as stated pertaining to Electric and others of the respondents, and said hearings are still continuing.

4. Rulings of the Commission with respect to other registered holding companies indicate that Electric's capitalization must be readjusted in order to comply with Section 11(b)(2) and that Electric will be required to divest itself of certain of its holdings in order to comply with the provisions of Section 11(b)(1) of said Act.

5. Electric has prepared and filed with the Commission (File No. 54-41) its application under Section 11(e) of the Public Utility Holding Company Act of 1935 for approval of a plan to enable said Corporation to comply with Subsection (b) of Section 11 of said Act. In brief, the Plan proposes, in order to comply with Section 11(b)(2) of the Act, that the corporate structure of Electric be simplified by the reclassification of its capital stock into a single class of stock with each share having identical rights as to dividends and other distributions and as to voting, and further proposes, in order to comply with Section 11(b)(1) of the Act, that the operations of Electric be confined to a single integrated public utility system with an additional system satisfying the requirements of said Section 11(b)(1). A copy of

said Plan and of the Application for its approval is attached hereto as Exhibit I.

6. Electric believes that it would be in the public interest and in the interest of investors and consumers to consolidate the above entitled proceedings (File No. 54-41 and File No. 59-12) and to continue the present hearings under File No. 59-12, so far as they relate to Electric, in conjunction with the hearings on the Plan proposed by Electric (File No. 54-41). Such proceedings involve common questions of law and fact and to continue them with joint hearings would be conducive to orderly procedure and to economy of effort and expense and would expedite the ultimate disposal of the questions involved in both proceedings.

7. The matter at issue in the proceeding under Section 11(b)(1) of the Public Utility Holding Company Act of 1935 (File No. 59-3) in so far as Electric is concerned, is the action required to be taken by it to limit its operations so as to meet the requirements of a single integrated public utility system and additional systems imposed by Section 11(b)(1) of the Act. The proposed Plan meets the objectives and requirements of said Section 11(b)(1) in electing a single integrated system, and an additional system satisfying the requirements of Paragraphs "A", "B" and "C" of said Section 11(b)(1), and provides for the disposal of all other systems. Consideration of the Plan will, therefore, dispense with any necessity of independent consideration of or hearing under said File No. 59-3 as far as concerns the Electric system.

8. The only matter presently at issue in the proceeding under Section 11(b)(2) of the Act (File No. 59-12), as limited by the order of the Commission, dated June 7, 1940, as above mentioned, in so far as Electric is concerned, is whether or not the existence of Electric should be discontinued to insure that the structure of the holding company

system of Electric Bond and Share Company shall not be unduly or unnecessarily complicated and the voting power shall not be unfairly or inequitably distributed among security holders of such system. The Plan submitted by Electric pursuant to Section 11(e) of the Act (File No. 54-41) proposes compliance by Electric with said Section 11(b)(2) by reclassification of all its capital stock, including all classes of preferred stock and arrearages, and common stock into a single class of stock. The resulting capital structure of Electric will conform to all standards of the Act and no further questions of complex corporate structure or unfair distribution of voting power will remain as to Electric. The present position of Electric Bond and Share Company as a stockholder of Electric and the extent of its voting influence will be so altered under the proposed new capital structure as either to solve all questions of corporate simplification and voting control posed by the present notice and order as limited by the said order of June 7, 1940, or such questions will be so clarified as to simplify their solution.

9. Further continuance of the present proceeding File No. 59-12 as at present conducted and upon the issues presently pending without regard to or consideration of the Plan, can result, as to Electric, only in an order dismissing such proceeding or in an order for the dissolution of Electric. Either order would leave unsolved the problems presented by Section 11(b) of the Act. Electric, as a Registered Holding Company, is entitled under Section 11(e) of the Act to present and have considered such a Plan as it has proposed for compliance with Section 11(b). An order of dissolution pending the consideration of the Plan and determination of whether it is fair and equitable would be inconsistent with the Plan and would deny to Electric and its security holders the rights and protection expressly given them by Section 11(e) of the Act. Such an order

would also result in the sacrifice of the interests of the security holders of Electric by requiring disposal of its holdings under present unsettled world and domestic conditions and the resulting depressed markets.

10. This application is based upon the statements herein, the Plan and Application for its approval pursuant to Section 11(e) of the Act (File No. 54-41), and upon the record, including pleadings and exhibits, in the 11(b)(1) and 11(b)(2) proceedings (File Nos. 59-3, 59-12), and Electric requests leave to refer to the same in support hereof.

Wherefore Electric Power & Light Corporation respectfully requests the Commission to make an appropriate order consolidating the hearing upon the Plan herein described (File No. 54-41) with any further hearings relating to Electric under the pending Notice and Order issued under Section 11(b)(2) of the Act (File No. 59-12) and also permitting counsel for the Commission and counsel for Electric, upon motion, to incorporate by reference as a part of the proceeding as to the Plan (File No. 54-41) any specified portions of the testimony and exhibits heretofore introduced in the aforesaid proceeding (File No. 59-12) which are relevant to the said hearing upon the Plan, so that the same may constitute a part of the record upon which the Commission shall base any order or orders relating to the Plan.

Respectfully submitted,

SIMPSON THACHER & BARTLETT,
by JOHN F. MACLANE

REID & PRIEST,
by FRANK A. REID

WRIGHT, GORDON, ZACHRY, PARLIN & CAHILL,
by BOYKIN C. WRIGHT

Counsel for Electric Power & Light Corporation.

Dated, December 5, 1941.

EXHIBIT I.

UNITED STATES OF AMERICA

Before the Securities and Exchange Commission

In the Matter of

Electric Power & Light Corporation, Applicant.

File No.

APPLICATION UNDER SECTION 11 (e) OF PUBLIC UTILITY HOLDING COMPANY ACT OF 1935 BY ELECTRIC POWER & LIGHT CORPORATION FOR APPROVAL OF PLAN TO ENABLE SAID CORPORATION TO COMPLY WITH SUBSECTION (b) OF SECTION 11 OF SAID ACT.

1. The Applicant, the above named Electric Power & Light Corporation (hereinafter called "Electric"), a "registered holding company" under the Public Utility Holding Company Act of 1935 (hereinafter called the "Act"), files herewith, marked Exhibit I, a Plan on behalf of Electric, under Section 11(e) of said Act for divestment of control, securities, or other assets, or for other action by Electric to enable it to comply with Subsection (b) of Section 11 of said Act.

2. At the direction of the Board of Directors of Electric said Plan has been prepared by its executives with the advice and assistance of counsel. Such Board has approved the Plan and by resolutions adopted at a meeting of said Board held on November 28, 1941, copy of which is attached hereto, marked Exhibit II, has authorized and directed the signing and filing of this application. There are no specific provisions of the charter, by-laws or similar documents of Electric relating to the right of the person signing and filing this application to take such action on behalf of Electric. Electric is distributing to its stockholders copies of the

Plan with an accompanying letter copy of which is filed herewith, marked Exhibit III.

3. Electric is a registered holding company of a public utility holding company system under said Act having public utility subsidiaries operating in Arkansas, Mississippi, Louisiana, Texas, Colorado, Utah, Nevada, Idaho, Oregon and Wyoming. In addition Electric is included in the group of companies of which Electric Bond and Share Company is the "top holding company".

4. On or about February 28, 1940, a proceeding was instituted by the Securities and Exchange Commission entitled "In the Matter of Electric Bond and Share Company and its subsidiary companies, respondents, File No. 59-3" by the issue of a "Notice of and Order for hearing pursuant to Section 11(b)(1) of the Public Utility Holding Company Act of 1935". By said Notice and Order it was charged (Paragraph 136) that the holding company system of said Electric Bond and Share Company is not confined in its operations to that of a single integrated public utility system within the meaning of the Act and to such other businesses as are reasonably incidental or economically necessary or appropriate to the operations of such integrated public utility system.

By the allegations of such Notice and Order and by the terms of the order, the holding company systems of the Applicant and the other respondents in said proceeding were brought under review and all of said respondents were permitted to include in their answers their claims as to the action which should be required to be taken by any of them to limit their operations so as to meet the requirements of Section 11(b)(1) of the said Act.

Aside from certain motions and the filing of a joint answer by respondents (including the Applicant) no hearings have been had or further action taken by the Commission under said File No. 59-3.

5. On or about May 9, 1940, the Commission instituted a proceeding against Electric Bond and Share Company, and Electric, the Applicant herein, and also other companies in the Electric Bond and Share Company system entitled "In the Matter of Electric Bond and Share Company" *et al.* "File No. 59-12" by "Notice of and Order for hearing pursuant to Section 11(b)(2) of the Public Utility Holding Company Act of 1935" in which it was charged (Paragraphs 46-47) that "the structure of the holding company system of Electric Bond and Share Company is unduly and unnecessarily complicated", and "voting power is unfairly and inequitably distributed among security holders of said system of said Electric Bond and Share Company."

After certain motions and proceedings not here material, the Commission on June 7, 1940, issued an order limiting the proceedings initially "to the issue of whether it is necessary to discontinue the existence of American Power & Light Company, Electric Power & Light Corporation, National Power & Light Company and American & Foreign Power Company Inc., or any of them, in order to insure that the structure of the holding company system of the Electric Bond and Share Company shall not be unduly or unnecessarily complicated and that voting power shall not be unfairly or inequitably distributed among security holders of such system". By subsequent order dated June 17, 1940, the proceeding was dismissed as to American & Foreign Power Company Inc.

6. Thereafter commencing on June 18, 1940, and subject to various adjournments, from time to time, hearings have been had before an examiner of the Commission under said Notice and Order (File No. 59-12) as limited by said order of June 7, 1940, and later order, to the above mentioned issues as stated pertaining to the Applicant and others of the respondents, and said hearings are still continuing.

7. Rulings of the Commission with respect to other registered holding companies indicate that Electric's capitalization must be readjusted in order to comply with Section 11(b) (2) and that Electric will be required to divest itself of certain of its holdings in order to comply with the provisions of Section 11(b) (1) of said Act.

8. The Plan of the applicant, filed herewith, proposes:

Simplification of Corporate Structure

In order to comply with Section 11(b) (2) of the Act, it is proposed that the existing classes of capital stock of Electric (including the $7 Preferred Stock, the $6 Preferred Stock, and Second Preferred Stock, Series A ($7), including arrearages, and the Common Stock), be replaced by a single class of stock with each share having identical rights as to dividends and other distributions and as to voting. It is further proposed that such new class of Capital Stock be distributed to the holders of the existing Capital Stock on such basis as shall be determined to be fair, taking into consideration existing rights, values and other relevant factors.

Various factors make it impracticable at the present time to determine what would be a fair and equitable distribution of the new capital stock among the existing classes of Capital Stock. Accordingly, the Plan as presently submitted does not propose a basis for the distribution of the new Capital Stock or determine the extent to which Electric's Second Preferred Stock and Common Stock may be entitled to receive shares of the new Capital Stock or what rights or privileges may be accorded the holders of the option warrants.

The $31,000,000 principal amount of 5% Debentures which do not mature until 2030 will not be affected by the part of the Plan which provides for simplification of corporate structure but may be retired in whole or in part in connection with divestment of properties.

Retention and Divestment of Properties

Electric elects to retain its Southern Electric System as the integrated system which it is entitled to retain under Section 11(b) (1) of the Act, and also elects to retain its United Gas System either as a part of said integrated system, or as an additional system under said Section.

The Southern Electric System consists of the electric utility properties of Louisiana Power & Light Company, Mississippi Power & Light Company, Arkansas Power & Light Company and New Orleans Public Service Inc., together with Gentilly Development Company, Inc., and the non-utility subsidiaries owned by Arkansas Power & Light Company. Each of the electric companies in this system also owns and operates natural gas distribution systems, obtaining their supply of natural gas in whole or in part from the United Gas System with which they are integrated.

Subject to obtaining the permission of the Commission, Electric elects to retain United Gas System either as a part of said integrated system, or as an additional system under Section 11 (b) (1) of the Act. United Gas System consists of a single gas utility company as defined in the Act which with its producing and pipe line subsidiaries constitutes a coordinated system confined in its operation to a single area or region, not so large as to impair (considering the state of the art and the area and region affected) the advantages of localized management, efficient operation and effectiveness of regulation. The utility operations of the United Gas System are confined to the States of Texas, Louisiana and Mississippi which States are the same as, or adjoin, the States in which the Southern Electric System operates. Furthermore, as stated above, the United Gas System supplies from its sources of production and through its pipe lines in some cases all, and in other cases

a substantial portion, of the natural gas distributed by the gas utility properties owned by companies included in the Southern Electric System, and thus such gas utility properties are integrated with the United Gas System. The United Gas System is further interconnected with the Southern Electric System through the utilization of natural gas from the United Gas System in the generation of electric power at most of the steam power plants in the Southern Electric System. The United Gas System, considered as an additional system to the Southern Electric System, satisfies the requirements of Subparagraphs (A), (B) and (C) of Section 11(b) (1) of the Act.

Electric proposes to dispose of its holdings in Idaho Power Company, Utah Power & Light Company, Dallas Power & Light Company, Dallas Railway & Terminal Company and Northern Texas Company by sale for cash, by exchange, or by distribution to Electric's security holders, as promptly as may be practicable and consistent with the best interests of the public and Electric's security holders. The proceeds of any such disposal may be applied towards the discharge of Electric's indebtedness or may be used for other corporate purposes.

With the approval of the Commission steps to put into effect the part of the Plan proposing simplification of corporate structure or the part of the Plan proposing retention and divestment of properties may be taken without regard to the consummation of the other part of the Plan.

The foregoing summary is subject to the more complete provisions of the Plan.

9. Electric hereby requests that the original, a duplicate original, or a photo copy of this application and any and all amendments thereto, whether executed hereafter or concurrently herewith, be offered in evidence on its behalf and be received in evidence as an exhibit of Electric in any proceeding before the Commission, or any officer

thereof or any Trial Examiner designated thereby, and that the verification of such application and any amendment thereto be considered as if the persons signing such verification had personally appeared and testified orally, under oath, duly administered, in any such proceeding to the statements contained in such verification.

10. Electric hereby agrees that whenever any document constituting part of the official files of the Commission is offered or received in evidence, it is offered or received subject to the reservation that if at any future time a transcript of the record is called for, either in connection with a petition for review or otherwise, copies may be furnished in lieu of the originals.

11. Neither this application nor the Plan filed herewith nor the acceptance of or reliance upon any order, rule or regulation, or of any order or direction of the Commission, shall be deemed to be a waiver of constitutional or legal rights of Electric or any of its associate or affiliate companies, all of which are hereby expressly reserved. Electric also expressly reserves and refuses to waive any constitutional rights and expressly reserves the right to contest the constitutionality of any provision of the Act as applied to it, or of any rule, regulation or order now or hereafter made or purported to be made thereunder and specifically reserves various constitutional and legal rights and questions reserved in its motions, answers and proceedings filed and taken in connection with the said Notices and Orders of the Commission above mentioned under Sections 11 (b) (1) and 11(b) (2) of the Act hereinabove mentioned and designated as File Nos. 59-3 and 59-12, respectively. If this reservation and refusal to waive any constitutional or legal right shall be held invalid or inoperative by any court of competent jurisdiction, this application shall be deemed to have been void and of no effect from any date

specified in written notice given to the Commission by or on behalf of Electric.

Wherefore, Electric respectfully requests and moves the Commission to grant a hearing under Section 11(e) of the Act upon the Plan of Electric filed herewith, and upon the completion of said hearing, to find such Plan, as filed or as the same may be supplemented and modified, necessary to effectuate the provisions of Section 11(b) of the Act and fair and equitable to the persons affected by the Plan and to approve the Plan, and to make such further order or orders as may be just and equitable.

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the Company set forth below caused this instrument to be duly executed on its behalf by its authorized officers on this 3rd day of December, 1941.

ELECTRIC POWER & LIGHT CORPORATION
By Joe H. Gill, President

Attest:
E. H. Dixon
Secretary

SIMPSON THACHER & BARTLETT,
By John F. MacLane

REID & PRIEST,
By Frank A. Reid

WRIGHT, GORDON, ZACHRY, PARLIN & CAHILL,
By Boykin C. Wright
Counsel for Electric Power & Light Corporation.

State of New York, }
County of New York, } ss.:

The undersigned being duly sworn deposes and says that he has duly executed the attached instrument for and on behalf of the Company named herein; that he is the Pres-

ident of such Company; and that all action by stockholders, directors and other bodies necessary to authorize deponent to execute and file such instrument has been taken. Deponent further says that he is familiar with such instrument and the transactions referred to therein, and that to the best of his knowledge, information and belief the statements made in such instrument are true.

JOE H. GILL

Subscribed and sworn to before me at New York, N. Y., this 3rd day of December, 1941.

Alice M. Powell
Alice M. Powell
Notary Public, Westchester Co.

Cert. filed in N. Y. Co. No. 402 Reg. No. 2-P-257
Commission Expires March 30, 1942

EXHIBIT I.

Electric Power & Light Corporation

PLAN DATED AS OF NOVEMBER 28, 1941 FOR COMPLIANCE WITH SECTIONS 11(b) (1) AND 11(b) (2) OF THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935.

At the direction of the Board of Directors of ELECTRIC POWER & LIGHT CORPORATION (hereinafter sometimes called "Electric"), this Plan has been prepared by its executives with the advice and assistance of counsel. Electric's Board of Directors has considered and approved this Plan and has directed that it be submitted to the Securities and Exchange Commission pursuant to Section 11(e) of the Public Utility Holding Company Act of 1935 (hereinafter sometimes called the "Act").

Introductory Statement

Electric was organized in 1925 under the laws of the State of Maine. At its organization Electric acquired hold-

ings in certain utility properties theretofore held by Electric Bond and Share Company and others, and subsequently Electric acquired interests in other public utility properties not previously held by Electric Bond and Share Company. Electric has served as a vehicle for holding, organizing, financing and developing electric and natural gas public utilities and related businesses. The expansion and growth of the operations of Electric arising from acquisitions of subsidiaries and acquisition and construction of properties during the period from December 31, 1925 to December 31, 1940, resulted in a net increase of more than $385,000,000 in the consolidated plant account of its subsidiaries and in an increase in consolidated operating revenues from $44,614,878 for the year 1925 to $114,939,237 for the year 1940.

Commencing in 1932 Electric and its subsidiaries were faced with adverse conditions resulting from the general business depression and, in addition, certain of its subsidiaries for varying periods have been confronted with special or local conditions which adversely affected such subsidiaries. In more recent years earnings have been adversely affected by increased taxes and operating expenses, and by reduced electric and gas rates and the direct and indirect effects of government competition.

Notwithstanding adverse conditions, Electric and its principal subsidiaries consistently have kept their properties in prime operating condition, have conducted efficient operations, have expanded and added to their facilities as justified by service requirements, and have maintained a sound financial position. Thus in the period from 1933 through 1940 Electric's subsidiaries added $150,600,000 to their plant accounts, largely by expansion of and addition to existing facilities, while retirements, sales and other adjustments to plant accounts in the amount of $109,900,000 were effected, resulting in a net increase in the consolidated plant account of Electric's subsidiaries

of approximately $40,700,000. In the same period, property retirement and depletion reserves were increased by more than $38,000,000. Cash and cash items have increased nearly $16,000,000, while publicly held debt has been reduced about $20,300,000.

Electric itself has at all times met its maturing obligations and has paid all interest accruing on its funded and other debt. As of September 30, 1941, Electric had current assets of $5,616,033 (including $5,236,655 cash in banks) as against current liabilities of only $737,771, and its only funded debt consisted of $31,000,000 principal amount of Gold Debentures, 5% Series, due 2030. Electric paid full dividends upon its $7 and $6 Preferred Stocks until October, 1932, and upon its Second Preferred Stock until May, 1932. During the years 1928 and 1932 it also paid dividends upon its Common Stock. Since 1932, Electric has paid no dividends upon its Second Preferred or Common Stock. The only dividends which Electric has declared since 1932 on its $7 and $6 Preferred Stocks are the dividends of 35 cents per share on the $7 Preferred Stock and 30 cents per share on the $6 Preferred Stock, which were paid on December 31, 1940, April 1, July 1, and October 1, 1941 and the dividends in like amounts declared for payment on January 2, 1942. Thus, large arrearages of dividends have accumulated on its preferred stocks. As at December 31, 1940, the undeclared cumulative dividends on the $7 and $6 Preferred Stocks aggregated $41,652,266 and the undeclared cumulative dividends on the Second Preferred Stock, Series A ($7), amounted to $4,620,639.

Electric is a "registered holding company" within the meaning of the Public Utility Holding Company Act of 1935. Subdivision (2) of Section 11 (b) of the Act contains provisions requiring the simplification of the corporate structure of a holding company system and the fair and equitable distribution of voting power therein. Electric is

a party respondent to a proceeding (Commission's file No. 59-12) brought by the Securities and Exchange Commission under Subdivision (2) of Section 11(b). Extended hearings have already been held therein, but such proceeding has not as yet been completed. However, rulings of the Commission with respect to other registered holding companies indicate that Electric's capitalization must be readjusted in order to comply with the provisions of Section 11(b) (2). Subdivision (1) of Section 11(b) of the Act contains provisions requiring that the operations of a holding company system be limited to one or more integrated public utility systems and other businesses reasonably incidental thereto. Subdivision (29) of Section 2 (a) of the Act gives a definition of an integrated public utility system. Electric is a party respondent to a proceeding (Commission's file No. 59-3) brought by the Commission under Subdivision (1) of Section 11(b). No testimony has been taken in such proceedings; but rulings of the Commission with respect to other registered holding companies indicate that Electric will be required to divest itself of certain of its holdings in order to comply with the provisions of Section 11(b) (1).

The text of Section 11(b) and Section 2 (a)(29) is for convenience annexed hereto as Exhibit 1.

Electric has an important function to perform in its field, and it is believed that its continued existence is in the public interest and in the interest of consumers and its security holders and is consistent with the provisions of the Act. Over a period of years substantial progress has been made by Electric and its subsidiaries in effecting simplification of their corporate structures and the integration of their properties.

The purpose of this Plan is to propose further steps designed to effect compliance with the provisions of both subdivisions of Section 11(b) of the Act. Part I of the Plan

relates to the simplification of Electric's corporate structure in order to comply with the provisions of Section 11(b)(2). Part II of the Plan relates to the retention and divestment of properties to meet the provisions of Section 11(b)(1).

Part I.

Simplification of Corporate Structure

The capital stock of Electric issued and outstanding as of December 31, 1940 was as follows:

Class of Stock	Number of Shares Outstanding	Stated Value
$7 Preferred Stock, Cumulative, No Par	515,135*	$155,044,139.40
$6 Preferred Stock, Cumulative, No Par	255,430⅓	
Second Preferred Stock, Series A ($7), No Par	75,439	
Common Stock, No Par	3,452,189*	

* Including 973 shares of $7 Preferred Stock and 902 shares of Common Stock reacquired and held in Treasury.

At December 31, 1940 there were outstanding option warrants entitling the holders, without limitation as to time, to purchase 537,254 shares of Electric's Common Stock at $25 a share; in lieu of cash, each share of Second Preferred Stock, Series A ($7) surrendered with option warrants for 4 shares is, under the terms of such warrants, accepted at $100 in payment for 4 shares of Common Stock.

The $7 Preferred Stock and the $6 Preferred Stock are entitled, *pari passu*, in preference to the Second Preferred Stock, Series A, and the Common Stock to cumulative dividends at the respective rates of $7 and $6 per share per annum and in liquidation to $100 per share plus undeclared cumulative dividends. The Second Preferred Stock, Series A, subject to the rights of the holders of the $7 Preferred Stock and the $6 Preferred Stock, is entitled in preference to the Common Stock to cumulative dividends at the rate of

$7 per share per annum and in liquidation to $100 per share plus undeclared cumulative dividends.

Each share of $7 Preferred Stock, $6 Preferred Stock and Common Stock is entitled to one vote with respect to ordinary business of the corporation. The shares of Second Preferred Stock have no such vote.

Electric is included in the group of companies in which Electric Bond and Share Company is the top holding company. The preferred stocks and Common Stock of Electric (other than the holdings of Electric Bond and Share Company) are held by approximately 25,000 investors. As of December 31, 1940 Electric Bond and Share Company owned the following amounts of Electric's Capital Stock:

Class	Number of Shares	Percentage of Total Outstanding
$7 Preferred Stock	485	.09
Second Preferred Stock, Series A ($7)	13,905	18.4
Common Stock	1,976,638	57.2

In addition Electric Bond and Share Company owned option warrants for the purchase of 393,408 shares of Common Stock or 72.2% of the outstanding option warrants. There is attached as Exhibit 9 a Schedule of Investments of Electric Bond and Share Company in Electric Power & Light Corporation and its Subsidiaries as of December 31, 1940.

Arrearages on Preferred Stocks

As of December 31, 1940 the undeclared cumulative dividends on Electric's Preferred Stocks were as follows:

Class of Stock	Amount per Share	Total
$7 Preferred Stock	$56.81⅔	$29,212,970.97
$6 Preferred Stock	48.70	12,439,294.90
Second Preferred Stock, Series A ($7)	61.25	4,620,638.75
		$46,272,904.62

Subsidiary Companies

The following are subsidiary companies of Electric and are public utility companies within the meaning of the Act:

Name	State of Organization	State in which Company Operates	Nature of Business
Arkansas Power & Light Company	Arkansas	Arkansas	Electric, gas, steam heating, water, and ice; owns transportation property under lease to Capital Transportation Company (a wholly owned subsidiary)
Dallas Power & Light Company	Texas	Texas	Electric
Idaho Power Company	Maine	Idaho, Oregon, Nevada	Electric
Louisiana Power & Light Company	Florida	Louisiana	Electric, gas, water, transportation, and ice
Mississippi Power & Light Company	Florida	Mississippi	Electric, gas, and water
New Orleans Public Service Inc.	Louisiana	Louisiana	Electric, gas and transportation
United Gas Corporation	Delaware	Texas, Louisiana, Mississippi	Natural gas
Utah Power & Light Company	Maine	Utah, Idaho, Wyoming	Registered holding company; electric, and steam heating
Utah Light and Traction Company	Utah	Utah	Transportation; owns facilities for generation, transmission, and distribution of electric energy which are under lease to Utah Power & Light Company (Parent)
The Western Colorado Power Company	Colorado	Colorado	Electric

Utah Light and Traction Company and The Western Colorado Power Company, in addition to being subsidiaries of Electric, are subsidiaries of Utah Power & Light Company, a registered holding company.

Electric owns all or substantially all of the common stocks (and in some cases some preferred stocks and debt) of the above public utility subsidiaries except United Gas Corporation, Utah Light and Traction Company and The Western Colorado Power Company. Electric owns 48.5% of the Common Stock and 100% of the Second Preferred Stock of United Gas Corporation. All of the outstanding stocks, except directors' qualifying shares, of Utah Light and Traction Company and The Western Colorado Power Company are owned by Utah Power & Light Company, a subsidiary of Electric. The bonds and preferred stocks of these public utility subsidiaries are held by a large number of investors.

Electric also controls the following companies which are not public utility companies within the meaning of the Act but are engaged in the businesses respectively set forth opposite their names:

Name	State of Organization	State in which Company Operates	Nature of Business
Subsidiaries of Electric Power & Light Corporation:			
*Dallas Railway & Terminal Company	Texas	Texas	Transportation
Gentilly Development Company, Inc.	Louisiana	Louisiana	Real Estate
*Northern Texas Company	Delaware	Inactive	Owns transportation properties under lease to Dallas Railway & Terminal Company
Subsidiaries of Arkansas Power & Light Company:			
Capital Transportation Company	Delaware	Arkansas	Transportation
White River Power Company	Arkansas	Arkansas	Owns hydro site
Subsidiaries of United Gas Corporation:			
Compania Mexicana de Gas, S. A.	Mexico	Mexico	Purchase, transportation and sale at wholesale of natural gas

Name	State of Organization	State in which Company Operates	Nature of Business
Duval Texas Sulphur Company	Texas	Texas	Mining and sale of sulphur
Houston Gas Securities Company	Delaware	Inactive	Owns securities only
Union Producing Company	Delaware	Texas, Louisiana, Mississippi,	Development, production and sale at wholesale of natural gas, natural gasoline, and crude oil
United Gas Pipe Line Company	Delaware	Texas, Louisiana, Mississippi, Alabama, Florida	Purchase, gathering, transportation and sale at wholesale of natural gas; extraction and sale of natural gasoline
Houston Gulf Gas Company	Delaware	Texas	Development, production, purchase, gathering, transportation and sale at wholesale of natural gas; production and sale of crude oil
United Oil Pipe Line Company	Delaware	Louisiana, Texas, Mississippi	Gathering and transportation of crude oil

* Plan to reorganize, consolidate and simplify corporate structure of these two companies is now pending before the Commission, Docket No. 70-366.

A schedule of the principal investments of Electric in subsidiaries at December 31, 1940, is annexed as Exhibit 2.

Financial Exhibits

A corporate balance sheet of Electric and a consolidated balance sheet of Electric and its subsidiaries as of December 31, 1940, as published in its annual report to stockholders, are annexed hereto as Exhibits 3 and 4, respectively.

Statements showing the corporate income of Electric and the consolidated income of Electric and its subsidiaries for the year 1940 are annexed hereto as Exhibits 5 and 6.

There are also attached Exhibit 7 which shows the long-term debt held by the public in subsidiaries of Electric and Exhibit 8 which shows the preferred stocks held by the public in such subsidiaries, both as of December 31, 1940.

Reclassification of Capital Stock

In order to comply with Section 11(b) (2) of the Act, it is proposed that the existing classes of capital stock of Electric (including the $7 Preferred Stock, the $6 Preferred Stock, and Second Preferred Stock, Series A ($7), including arrearages, and the Common Stock) be replaced by a single class of stock with each share having identical rights as to dividends and other distributions and as to voting. It is further proposed that such new class of Capital Stock be distributed to the holders of the existing Capital Stock on such basis as shall be determined to be fair, taking into consideration existing rights, values and other relevant factors.

Various factors make it impracticable at the present time to determine what would be a fair and equitable distribution of the new capital stock among the existing classes of Capital Stock. Accordingly, the Plan as presently submitted does not propose a basis for the distribution of the new Capital Stock or determine the extent to which Electric's Second Preferred Stock and Common Stock may be entitled to receive shares of the new Capital Stock or what rights or privileges may be accorded the holders of the option warrants.

In any reorganization or reclassification of corporate structure, consideration should be given to the intrinsic values of the properties of the operating subsidiaries of Electric because it is the equity stocks of these subsidiaries which comprise Electric's principal investments. These companies are performing necessary and valuable public

service and their properties are well conceived and constructed. An engineering estimate, now in the process of preparation, of the present value of the properties of the principal operating subsidiaries of Electric, on the basis of cost of reproduction less depreciation, indicates that the value of the properties of these subsidiaries, calculated on such basis, is substantially in excess of the sum of their stated plant accounts. In addition to possessing properties of great physical value, the operating subsidiaries have shown substantial earning power under adverse business conditions in the past and they have great potential earning power for the future. In spite of the added complexities, business difficulties, and increased costs with which these subsidiaries are confronted in their present operation, the trend of their earnings now is upward. The operating subsidiaries are public utilities subject to governmental regulation and it is submitted that they are entitled to earn a reasonable return upon the fair value of their properties. Full consideration should be given to all of such factors in determining the value of the holdings of Electric and the basis for the distribution of the new Capital Stock.

In the proceedings before the Commission in connection with the Plan, adequate and complete evidence will be presented with respect to the values of the holdings of Electric in its subsidiaries and, correspondingly, to the values represented by the various classes of stock and option warrants of Electric, and such proceedings should serve to clarify questions of fact and law relative to such values.

Electric has outstanding $31,000,000 principal amount of 5% Debentures which do not mature until 2030. These Debentures will not be affected by Part I of the Plan, but may be retired in whole or in part in connection with the divestment of properties pursuant to Part II of the Plan.

Part II.

Retention and Divestment of Properties

The properties presently controlled by Electric include the following:

The Southern Electric System, including Louisiana Power & Light Company, Mississippi Power & Light Company, Arkansas Power & Light Company, New Orleans Public Service Inc., Gentilly Development Company, Inc., and certain other non-utility properties;

The United Gas System, including United Gas Corporation and its subsidiaries;

The Idaho-Utah Group, including Idaho Power Company, Utah Power & Light Company, Utah Light and Traction Company and The Western Colorado Power Company; and

Dallas Power & Light Company, Dallas Railway & Terminal Company and Northern Texas Company.

Retention of Southern Electric System

Electric hereby elects to retain its Southern Electric System as the integrated system which it is entitled to retain under Section 11(b) (1) of the Act, and also elects to retain its United Gas System, either as a part of said integrated system, or as an additional system under said Section. Under Section 11(b) (1) of the Act, the text of which is set forth in Exhibit 1 hereto, Electric may retain, subject to the approval of said Commission, "a single integrated public utility system and * * * such other businesses as are reasonably incidental or economically necessary or appropriate to the operations" of such public utility system, and may be permitted to retain such additional systems as the Commission may find (A) cannot be operated independently without the loss of substantial

economies, (B) are located in one state or in adjoining states, and (C) are not so large in combination as to impair advantages of localized management, efficient operation or effective regulation. It is submitted that the Southern Electric System and the United Gas System, which are hereinafter described, satisfy these requirements.

The Southern Electric System, which Electric hereby elects to retain as its principal system, consists of the electric utility properties of Louisiana Power & Light Company, Mississippi Power & Light Company, Arkansas Power & Light Company and New Orleans Public Service Inc., together with Gentilly Development Company, Inc., and the non-utility subsidiaries owned by Arkansas Power & Light Company.

The Southern Electric System is an integrated electric public utility system within the meaning of Section 2 (a) (29) of the Act. This System was initially created, and for nearly fifteen years has been physically operated, as an integrated coordinated electric utility system. It combines advantages of geographic, economic and climatic diversity with diversity of power supply, both as to location and as between steam and water power, and is operated as a single system in such manner as to promote maximum efficiency and economy of operation. The business of distributing and selling electric energy is under the separate control of the different companies serving their respective areas thus preserving independence of local management and effectiveness of local regulation by State authority. The engineering problems of power supply and transmission are administered jointly in the most efficient and beneficial manner for all the companies. The electric companies in this System also own and operate natural gas distribution systems, obtaining their supply of natural gas in whole or in part from the United Gas System with which they are integrated.

The properties included in the Southern Electric System are physically interconnected and are economically operated as a single interconnected and coordinated system confined in its operations to a single area or region located in adjoining states, not so large as to impair (considering the state of the art and the area and region affected) advantages of localized management, efficient operation or the effectiveness of regulation.

There would seem to be no present reasons for disposal of the non-utility companies or businesses conducted by Capital Transportation Company, White River Power Company, and Gentilly Development Company, Inc., and it is believed that those properties may properly be retained as other businesses reasonably incidental or economically necessary or appropriate to the operations of the Southern Electric System. Capital Transportation Company and White River Power Company are directly affiliated with and incidental to the business of Arkansas Power & Light Company. Gentilly Development Company, Inc. was created for the purpose of acquiring and holding certain real estate against possible future needs of Louisiana Power & Light Company or of New Orleans Public Service Inc. The growth in and about the City of New Orleans has been such that desirable sites for future construction of generating facilities have become increasingly scarce, and accordingly the continued retention of this interest is even more imperative now than when originally acquired.

Retention of United Gas System

Subject to obtaining the permission of the Commission, Electric hereby elects to retain the United Gas System, either as a part of said Southern Electric System, or as an additional system under Section 11(b) (1) of the Act.

The United Gas Corporation and its non-utility producing and pipe line subsidiaries presently constitute an in-

tegrated natural gas system within the meaning of Section 2(a) (29) of the Act. It consists of a single gas utility company as defined in the Act which, with its producing and pipe line subsidiaries, constitutes a coordinated system confined in its operation to a single area or region, not so large as to impair (considering the state of the art and the area and region affected) the advantages of localized management, efficient operation and effectiveness of regulation. The utility operations of the United Gas System are confined to the States of Texas, Louisiana and Mississippi, which States are the same as, or adjoin, the States in which the Southern Electric System operates. Furthermore, as stated above, the United Gas System supplies from its sources of production and through its pipe lines in some cases all, and in other cases a substantial portion, of the natural gas distributed by the gas utility properties owned by companies included in the Southern Electric System, and thus such gas utility properties are integrated with the United Gas System. The United Gas System is further interconnected with the Southern Electric System through the utilization of natural gas from the United Gas System in the generation of electric power at most of the steam power plants in the Southern Electric System. The United Gas System, considered as an additional system to the Southern Electric System, satisfies the requirements of Subparagraphs (A), (B) and (C) of Section 11(b) (1) of the Act.

In addition to supplying and transmitting natural gas for the utility operations of United Gas Corporation and the Southern Electric System, and as a necessary incident to such business, subsidiaries of United Gas Corporation are engaged in the production of crude oil and natural gasoline.

United Gas Corporation has formally submitted to the Commission a definitive proposal for the refinancing of its present debt. Hearings on the refinancing plan have been

conducted and substantially completed before the Commission in proceedings docketed as Nos. 70-314, 70-315, 59-21, and 4-33. Such proceedings may result in a rearrangement of the capital structure of United Gas Corporation, but the consummation of this Plan is not dependent upon the outcome of such proceedings.

Disposition of Other Holdings

It is assumed that the Commission may not permit Electric to retain its holdings in Idaho Power Company and Utah Power & Light Company, and also that the Commission may not permit Electric to retain its holdings in Dallas Power & Light Company, Dallas Railway & Terminal Company or Northern Texas Company. Electric, therefore, proposes to dispose of these holdings by sale for cash, by exchange, or by distribution to Electric's security holders, as promptly as may be practicable and consistent with the best interests of the public and Electric's security holders. The proceeds of any such disposal may be applied towards the discharge of Electric's indebtedness or may be used for other corporate purposes.

Pending the consummation of the Plan, Electric may dispose of any securities or other assets in a manner consistent with the provisions of the Act and other applicable provisions of law.

Part III.

Procedure for Carrying Out Plan

The Plan is submitted to the Securities and Exchange Commission under Section 11(e) of the Act. The Plan, as later supplemented or amended, is to be carried out under the provisions of Section 11 of the Act and other applicable provisions of law with such proceedings before the Commission and in court and such corporate proceedings as may be determined to be necessary and appropriate.

Copies of the Plan are being mailed to all holders of record of the capital stock of Electric. Upon consideration and final approval by the Commission of the Plan, including any amendments proposed and adopted, the Board of Directors will call a stockholders' meeting with the stated objective of submission of the Plan for approval and appropriate action.

With the approval of the Commission, steps to put into effect either Part I or Part II of the Plan may be taken without regard to the consummation of the other part of the Plan.

The Plan may be supplemented, amended or modified at any time in such manner as may meet with the approval of the Commission.

The Plan may be carried out by Electric or by another existing corporation or by a new corporation to be formed for such purpose. Any references herein to Electric may be deemed to include whatever corporation is utilized to carry out the Plan.

Steps taken to carry out the Plan shall be subject to approval of or action by the Securities and Exchange Commission, the Federal Power Commission and any other Federal or State regulatory body or agency to the extent required by applicable provisions of law.

The statements, opinions, computations, estimates and conclusions contained in the Introductory Statement, the Plan and the Exhibits annexed hereto are submitted by Electric solely for the purpose of assisting the Commission, the Court, the stockholders and other parties in interest in any steps or proceedings with respect to the Plan, and are not intended for the use or information of prospective purchasers of any securities, whether now existing or proposed to be issued, or for any purposes other than the purpose stated in this paragraph; and no one is authorized to make any statements regarding the Plan, whether with reference

to any securities referred to herein or otherwise, which are not set forth herein.

This Plan is submitted, and all statements herein are made, with full reservation of any rights which Electric, its subsidiaries, and its and their security holders may have under the constitutions and laws of the United States and of the various States.

By order of the Board of Directors.

ELECTRIC POWER & LIGHT CORPORATION
Joe H. Gill, President

Exhibit 1.

Text of Certain Sections of the Public Utility Holding Company Act of 1935

Section 11

"(b) It shall be the duty of the Commission, as soon as practicable after January 1, 1938:

(1) To require by order, after notice and opportunity for hearing, that each registered holding company, and each subsidiary company thereof, shall take such action as the Commission shall find necessary to limit the operations of the holding-company system of which such company is a part to a single integrated public-utility system, and to such other businesses as are reasonably incidental, or economically necessary or appropriate to the operations of such integrated public-utility system: Provided, however, That the Commission shall permit a registered holding company to continue to control one or more additional integrated public-utility systems, if, after notice and opportunity for hearing, it finds that—

(A) Each of such additional systems cannot be operated as an independent system without the loss of substantial economies which can be secured by the retention of control by such holding company of such system;

(B) All of such additional systems are located in one State, or in adjoining States, or in a contiguous foreign country; and

(C) The continued combination of such systems under the control of such holding company is not so large (considering the state of the art and the area or region affected) as to impair the advantages of localized management, efficient operation, or the effectiveness of regulation.

The Commission may permit as reasonably incidental, or economically necessary or appropriate to the operations of one or more integrated public-utility systems the retention of an interest in any business (other than the business of a public-utility company as such) which the Commission shall find necessary or appropriate in the public interest or for the protection of investors or consumers and not detrimental to the proper functioning of such system or systems.

(2) To require by order, after notice and opportunity for hearing, that each registered holding company, and each subsidiary company thereof, shall take such steps as the Commission shall find necessary to ensure that the corporate structure or continued existence of any company in the holding-company system does not unduly or unnecessarily complicate the structure, or unfairly or inequitably distribute voting power among security holders, of such holding-company system. In carrying out the provisions of this paragraph the Commission shall require each registered holding-company (and any company in the same holding-company system with such holding company) to take such action as the Commission shall find necessary in order that such holding company shall cease to be a holding company with respect to each of its subsidiary companies which itself has a subsidiary company which is a holding company. Except for the purpose of fairly and equitably distributing voting power among the security holders of such company, nothing in this paragraph shall authorize the

Commission to require any change in the corporate structure or existence of any company which is not a holding company, or of any company whose principal business is that of a public-utility company."

EXHIBIT 1.

Text to Certain Sections of the Public Utility Holding Company Act of 1935 (Continued)

Section 2(a)

"(29) 'Integrated public-utility system' means—

(A) As applied to electric utility companies, a system consisting of one or more units of generating plants and/or transmission lines and/or distributing facilities, whose utility assets, whether owned by one or more electric-utility companies, are physically interconnected or capable of physical interconnection and which under normal conditions may be economically operated as a single interconnected and coordinated system confined in its operations to a single area or region, in one or more States, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation; and

(B) As applied to gas utility companies, a system consisting of one or more gas utility companies which are so located and related that substantial economies may be effectuated by being operated as a single coordinated system confined in its operations to a single area or region, in one or more States, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation: Provided, That gas utility companies deriving natural gas from a common source of supply may be deemed to be included in a single area or region."

Exhibit 2.

SCHEDULE OF PRINCIPAL INVESTMENTS OF ELECTRIC POWER & LIGHT CORPORATION IN ITS SUBSIDIARIES

As of December 31, 1940

Company and Issue	No. of Shares or Principal Amount	% of Class
Arkansas Power & Light Company:		
$7 Preferred Stock	7,697	8
Common Stock	1,233,638	100
Dallas Power & Light Company:		
Common Stock	238,875	91
Dallas Railway & Terminal Company:		
(A) 7% Preferred Stock	11,000	74.1
Common Stock	30,684	94.4
Options to purchase Common Stock	1,816	--
Gentilly Development Company, Inc.:		
6% Demand Notes	$ 70,836.63	
6% Income Note Due January 1, 1940	$ 73,415.31	
Open Account	$ 49,300.00	
Capital Stock	1,478.18676	100
Idaho Power Company:		
(B) Preferred Stock (7%)	3,030	8.7
(B) Common Stock	150,000	100
Louisiana Power & Light Company:		
$6 Preferred Stock	520	.8
Second Preferred Stock ($6)	30,000	100
Common Stock	1,200,000	100
Mississippi Power & Light Company:		
6% Demand Loans	$ 190,000.00	
(A) $6 Preferred Stock	1,493	2.2
(A) $6 Second Preferred Stock	35,000	100
Common Stock	1,000,000	100
New Orleans Public Service Inc.:		
Preferred Stock ($7)	9,806	12.6
Common Stock	716,736.823	95.1
Northern Texas Company:		
6% Note dated November 25, 1935 due November 25, 1940	$1,575,000.00	
Common Stock	2,000	100
United Gas Corporation:		
(A) $7 Second Preferred Stock	884,680	100
Common Stock	3,795,086	48.5
(C) Option Warrants to purchase Common Stock	3,600,040	73.9
Utah Power & Light Company:		
(A) $7 Preferred Stock	2,100	1
Common Stock	3,000,000	100

NOTES:

(A) Dividends in arrears.

(B) Pledged with Bankers Trust Company, Trustee, as collateral security for Power Securities Corporation Collateral Trust Gold Bonds, American 6% Series, assumed by this Corporation on December 8, 1937. (These bonds were called for redemption on June 1, 1941, and pledged securities were returned to Electric Power & Light Corporation).

(C) Each option warrant give option to purchase without limitation as to time, one share

Exhibit 5.

BALANCE SHEET OF ELECTRIC POWER & LIGHT CORPORATION
As of December 31, 1940

ASSETS

*Investment Securities and Advances—Subsidiaries, Etc.		$184,538,756.88
Current Assets:		
Cash in Banks—On Demand	$ 5,790,123.01	
Special Cash Deposits	66,814.00	
Accounts Receivable	1.50	
Dividends Receivable—Associate Companies	275,171.15	
Other Current Assets	1,050.00	
Total Current Assets		6,133,159.66
Deferred Charges:		
Unamortized Debt Discount and Expense	$ 3,471,941.64	
Other	8,787.50	
Total Deferred Charges		3,480,729.14
Reacquired Capital Stock—973 shares of $7 Preferred Stock and 902 shares of Common Stock		103,109.32
TOTAL		$194,255,755.01

NOTES:

* All of the issued and outstanding common stock (150,000 shares) and 3,030 shares of preferred stock (7%) of Idaho Power Company owned by this Company, are pledged with Bankers Trust Company, Trustee, as collateral to Power Securities Corporation Collateral Trust Gold Bonds, American 6% Series, which bonds were assumed by this Company on December 8, 1937, pursuant to the plan of liquidation of Power Securities Corporation.

Investments are stated at ledger value, based on Company's valuations of securities acquired for securities issued and on cash costs, less proceeds received and other credits arising through disposal of investments included in group valuations. Losses or gains arising through the disposal of bonds and other investments included in group valuations—undeterminable in the absence of individual valuations—are included in ledger value.

There are outstanding option warrants entitling the holders, without limitation as to time, to purchase 537,254 shares of common stock at $25 a share; in lieu of cash, each share of second preferred stock, series A ($7), surrendered with option warrants for four shares will be accepted at $100 in payment for four shares of common stock.

No provision has been made in the foregoing statement for undeclared cumulative dividends amounting to $29,212,970.97 ($56.81¼ a share) on the $7 preferred stock; $13,439,294.90 ($48.70 a share) on the $6 preferred stock; and $4,620,638.75 ($61.25 a share), on the second preferred stock, series A ($7). For details see note to summary of earned surplus.

Exhibit 3.

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BALANCE SHEET OF ELECTRIC POWER & LIGHT CORPORATION
As of December 31, 1940

LIABILITIES

Capital Stock (no par value)		$155,044,139.40
Long-Term Debt:		
Gold Debentures, 5% Series, due 2030	$ 31,000,000.00	
Power Securities Corporation Collateral Trust Gold Bonds, American 6% Series, due June 1, 1949	762,625.07	
Total Long-Term Debt		31,762,625.07
Current Liabilities:		
Accounts Payable:		
Associate Companies	$ 1,439.88	
Other	13,476.92	
Accrued Interest (including $3,684.00 for which cash is in Special Cash Deposits)	654,823.75	
Accrued Taxes	55,942.66	
Other Current Liabilities:		
Power Securities Corporation Collateral Trust Gold Bonds called for redemption—including premium (cash in Special Cash Deposits)	13,130.00	
Power Securities Corporation Collateral Trust Gold Bonds callable within twelve months	109,000.00	
Miscellaneous	7,053.73	
Total Current Liabilities		854,866.94
Reserve		156,206.92
Earned Surplus		6,437,916.68
TOTAL		$194,255,755.01

Details of Capital Stock:

$7 Preferred, cumulative (entitled upon liquidation to $100 a share); pari passu with $6 Preferred and $5 Preferred; authorized, 800,000 shares; issued, 515,135 shares

$6 Preferred, cumulative (entitled upon liquidation to $100 a share); pari passu with $7 Preferred and $5 Preferred; authorized, 1,000,000 shares; outstanding (including 3½ shares of scrip), 255,430½ shares

$5 Preferred, cumulative (entitled upon liquidation to $100 a share); pari passu with $7 Preferred and $6 Preferred; authorized, 1,000,000 shares; issued, none

Second Preferred, Series A ($7), cumulative (entitled upon liquidation to $100 a share); pari passu with Second Preferred, Series AA ($7); authorized, 120,000 shares; outstanding, 75,439 shares

Second Preferred, Series AA ($7), cumulative (entitled upon liquidation to $100 a share); pari passu with Second Preferred, Series A ($7); authorized, 100,000 shares; issued, none

Common; authorized, 4,000,000 shares; issued, 3,452,189 shares

} $155,044,139.40

Exhibit 4.

CONSOLIDATED BALANCE SHEET OF ELECTRIC POWER & LIGHT CORPORATION AND SUBSIDIARIES

As of December 31, 1940.

ASSETS

PLANT, PROPERTY, AND EQUIPMENT (INCLUDING INTANGIBLES) OF SUBSIDIARY COMPANIES—		
Based on Ledger Value	$693,536,150.51	
Less net adjustment arising from the elimination of intercompany-held securities, including balance of surplus of subsidiaries at dates of acquisition, as adjusted	28,377,287.70	
BALANCE		$665,158,862.81
INVESTMENT AND FUND ACCOUNTS:		
Investments (ledger value)	$ 3,091,106.76	
Non-Current Receivables	363,873.97	
Sinking Funds	18,200.34	
Miscellaneous Special Funds	111,348.86	
TOTAL INVESTMENT AND FUND ACCOUNTS		3,584,529.93
CURRENT AND ACCRUED ASSETS:		
Cash in Banks—On Demand	$ 28,837,865.32	
Cash in Banks—Time Deposits	475,000.00	
Special Deposits:		
Matured, Called, and Currently Maturing Long-Term Debt (Including Premium) and Matured and Accrued Interest	657,993.21	
Other	622,259.07	
Working Funds	332,325.25	
Temporary Cash Investments	1,284,959.57	
Notes Receivable	437,817.91	
Accounts Receivable:		
Customers and Miscellaneous	11,030,263.19	
Associated Companies	102,190.48	
Inventories:		
Materials and Supplies	4,470,033.40	
Sulphur, Crude Oil, etc.	1,639,431.89	
Prepayments	326,449.10	
Other Current and Accrued Assets	181,496.68	
TOTAL CURRENT AND ACCRUED ASSETS		50,398,085.05
DEFERRED DEBITS:		
Unamortized Debt Discount and Expense	$ 11,640,003.15	
Property Abandoned	146,451.10	
Advances and Accounts Collectible from Production	290,128.86	
Other	444,316.26	
TOTAL DEFERRED DEBITS		12,520,899.37
REACQUIRED CAPITAL STOCK:		
Electric Power & Light Corporation—973 shares of $7 Preferred Stock and 902 shares of Common Stock	$ 103,109.33	
Subsidiaries—5,927 shares of Preferred Stocks	591,590.00	
TOTAL REACQUIRED CAPITAL STOCK		694,699.33
CONTRA ASSETS:		
Consigned Materials	$ 47,199.06	
Other	1,367.61	
TOTAL CONTRA ASSETS		48,566.67
TOTAL		$732,405,643.16

Exhibit 4.

CONSOLIDATED BALANCE SHEET OF ELECTRIC POWER & LIGHT CORPORATION AND SUBSIDIARIES

As of December 31, 1940.

LIABILITIES

Capital Stock:			
Electric Power & Light Corporation (for details see balance sheet of the Company)		$155,044,139.40	
Subsidiaries:			
Preferred Stocks 1,173,291 shares (entitled upon liquidation to $100 a share)		117,329,100.00	
Common Stocks, 4,214,338-957/1000 shares	$ 5,871,905.98		
Less Net Deficit applicable to Minority Interests	3,411,171.36	2,460,734.62	
Total Capital Stock (Less Net Deficit applicable to Minority Interests)			$274,833,974.02
Long-Term Debt:			
Electric Power & Light Corporation:			
Gold Debentures, 5% Series, due 2030	$ 31,000,000.00		
Power Securities Corporation Collateral Trust Gold Bonds, American 6% Series, due June 1, 1949	762,625.07	$ 31,762,625.07	
Subsidiaries:			
Mortgage Bonds	$190,842,560.00		
Collateral Trust Bonds	3,900,000.00		
Debentures	30,000,000.00		
Mortgage Income Bonds	4,625,380.00		
Notes Payable to Banks	5,600,000.00		
Miscellaneous	1,096,383.88	236,064,323.88	
Total Long-Term Debt			267,826,948.95
Current and Accrued Liabilities:			
Note Payable of Subsidiary—United Gas Corporation to Electric Bond and Share Company (Without Collateral)—Due on Demand		$ 25,925,000.00	
Accounts Payable:			
United Gas Corporation to Electric Bond and Share Company		2,000,000.00	
Other Associated Companies		267,600.85	
Other		2,494,469.83	
Dividends Declared (Including $324,359.93 for which Cash is in Special Deposits)		906,055.45	
Currently Maturing Long-Term Debt:			
Power Securities Corporation Collateral Trust Gold Bonds callable within twelve months		109,000.00	
Subsidiaries:			
Notes Payable to Banks		1,400,000.00	
Miscellaneous (Including $4,000.00 for which Cash is in Special Deposits)		215,252.66	
Matured Long-Term Debt (Including Premium) and Interest (Including $318,117.71 for which Cash is in Special Deposits)		341,428.86	
Preferred Stocks called for Redemption and Dividends thereon—Dissolved Subsidiaries (Cash in Special Deposits)		11,253.14	
Customers' Deposits		3,717,162.77	
Taxes Accrued		11,248,760.51	
Interest Accrued (Including $322,745.50 for which Cash is in Special Deposits)		3,936,429.10	
Other Current and Accrued Liabilities		558,543.09	
Total Current and Accrued Liabilities			53,130,956.26
Deferred Credits:			
Customers' Advances for Construction		$ 376,173.41	
Other		289,454.09	
Total Deferred Credits			665,627.50
Reserves:			
Property Retirement and Depletion		$ 68,881,452.74	
Uncollectible Accounts and Advances		931,391.71	
Inventory Adjustment (Materials and Supplies)		350,297.70	
Other		4,480,943.52	
Total Reserves			74,644,085.67
Contributions in Aid of Construction			503,003.24
Contra Liabilities:			
Consignments		$ 47,199.06	
Other		1,367.61	
Total Contra Liabilities			48,566.67
Declared Cumulative Dividends on Preferred Stocks of Subsidiaries Held by Public			18,715,627.75
Deferred Credit			13,917,368.63
Surplus:			
Earned, Less Amount Accruing to Minority Interest		$ 27,499,448.68	
Appropriated (Including Addition of $143,222.04 during 1940)		620,035.81	
Total Surplus			28,119,484.49
TOTAL			$732,405,643.18

The notes on page 18 are integral parts of the above statement and should be considered in connection therewith.

Exhibit 4.

NOTES RELATING TO CONSOLIDATED BALANCE SHEET OF ELECTRIC POWER & LIGHT CORPORATION AND SUBSIDIARIES

As of December 31, 1940

1. Plant, property, and equipment (including intangibles) are stated on the basis of cost where acquired for cash or constructed on the basis of the companies' valuations thereof at acquisition where acquired by issuance of stocks and other securities or on the basis of independent appraisal values for certain subsidiaries as of June 30, 1932, subsequently reduced in connection with intercompany transfers. The amount at which plant, property, and equipment (including intangibles) is stated does not purport to represent present realizable values or replacement cost.

2. It has been the general practice of the operating subsidiaries (except as to those subsidiaries referred to later herein) to provide for property retirements and depletion by making such provisions from current income as are considered by the management necessary to provide for retirements (including lease abandonments and dry hole costs) when they occur, rather than as calculated on the basis of estimated lives of the individual units of property or sustained depletion of gas and oil reserves, such provisions being in addition to expenditures included in operating expenses to maintain the properties in condition to render adequate service. Undeveloped leases surrendered and dry hole costs charged against property retirement and depletion reserve by gas and oil producing subsidiaries during 1940 amounted to $992,797.22 and $500,381.04, respectively. Appropriations from income for the retirement reserve by Dallas Railway & Terminal Company have been under the regulatory authority of the City of Dallas, Texas, in which the company operates, but such appropriations have been insufficient to leave any balance in the reserve for retirements of property (including property abandoned). With respect to Utah Light and Traction Company, provision for the retirement of property under lease is made by Utah Power & Light Company, lessee, and upon retirement of any such property, the actual or estimated cost thereof is charged to the lessee. provision for the renewal of motor coaches and automotive equipment is made by charges to operating expenses; the actual or estimated cost of other property retired or abandoned is charged to surplus when such retirement or abandonment is effected in the accounts.

3. Systems of accounts prescribed by regulatory authorities for public utilities provide for depreciation and depletion accounting and reclassification of plant, property, and equipment (including intangibles). Subsidiaries subject to the systems of accounts have submitted reclassifications to regulatory commissions having jurisdiction or are preparing reclassifications, but pending final disposition thereof and final determination of the extent to which such provisions may be imposed, the effect on the companies' accounts is unknown.

4. There are outstanding option warrants to purchase 537,254 shares of common stock of Electric Power & Light Corporation and 1,264,927 shares of common stock of United Gas Corporation.

5. No provision has been made in the accompanying statement for undeclared cumulative dividends of Electric Power & Light Corporation amounting to $29,212,970.97 ($56.81⅓ a share) on its $7 preferred stock; $12,439,294.90 ($48.70 a share) on its $6 preferred stock; and $4,620,638.75 ($61.25 a share) on its second preferred stock, series A ($7).

6. Certain intercompany-held securities of subsidiaries (eliminated in consolidation) have been pledged as set forth in the detailed schedules of preferred stocks and long-term debt.

7. No provision has been made in the accompanying statement for possible losses resulting from pending suits and claims against United Gas Corporation and certain of its subsidiaries (arising principally in connection with gas and oil producing properties). It is the practice of the companies to record any such losses when and as settled.

8. In March 1941, action was started against United Gas Corporation, certain of its past and present directors, and Electric Bond and Share Company, in the Supreme Court, New York County, by a holder of 150 shares of the common stock of United Gas Corporation, among other things attacking interest payments on indebtedness of United Gas Corporation owned by Electric Bond and Share Company and demanding an accounting. Counsel for United Gas Corporation are of the opinion that this action is without merit.

* Additional equity in net worth of United Gas Corporation (a subsidiary) accruing to Electric Power & Light Corporation from minority interest in common stock of United Gas Corporation, representing unearned cumulative dividends on second preferred stock of the subsidiary owned by Electric Power & Light Corporation to the extent that such dividends have priority over and reduce the equity of such common stock minority interest.

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Exhibit 5.

SCHEDULE OF INCOME OF ELECTRIC POWER & LIGHT CORPORATION

For the Twelve Months Ended December 31, 1940.

INCOME	
Gross Income:	
From Subsidiaries	$3,324,497
Other	3,285
Total	3,327,782
Expenses, including Taxes	382,036
Net Income before Interest and Other Deductions	2,945,746
Interest on Debentures	1,550,000
Interest on Collateral Trust Bonds	56,605
Amortization of Debt Discount and Expense on Debentures	38,974
Premium and Expense on Collateral Trust Bonds Retired	1,092
Total Interest and Other Deductions	1,646,671
Net Income	$1,299,075

Note:

No provision has been made for Federal excess profits tax since no excess profits are indicated.

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Exhibit 6.

STATEMENT OF CONSOLIDATED INCOME OF ELECTRIC POWER & LIGHT CORPORATION AND SUBSIDIARIES

For the Twelve Months Ended December 31, 1940

Subsidiaries	
Operating Revenues	$114,939,237
Operating Revenue Deductions:	
Operating Expenses:	
Operation	41,219,917
†Maintenance	5,724,314
*Taxes	18,912,027
Property Retirement and Depletion Reserve Appropriations	17,849,119
Total Operating Revenue Deductions	83,705,377
Net Operating Revenues	31,233,860
Other Income	410,786
Other Income Deductions, including Taxes	119,131
Other Income (net)	291,655
Gross Income	31,525,515
Interest on Long-Term Debt	11,853,359
Other Interest (notes, loans, etc.)	2,028,004
Other Deductions	1,125,528
Total Interest to Public and Other Deductions	15,006,891
Less Interest charged to Construction	38,315
Net Interest to Public and Other Deductions	14,968,576
Balance	16,556,939
Preferred Dividends to Public (full dividend requirements applicable to period whether earned or unearned)	7,886,452
Balance	8,670,487
Portion applicable to Minority Interests (based upon holdings by the public of common stocks of subsidiaries at end of period)	381,878
Net Equity of Electric Power & Light Corporation in Income of Subsidiaries	$ 8,288,609
Electric Power & Light Corporation	
Net Equity of Electric Power & Light Corporation in Income of Subsidiaries (as shown above)	$ 8,288,609
Other Income	3,285
Total	8,291,894
Expenses, including Taxes	382,036
Balance before Interest and Other Deductions	7,909,858
Interest and Other Deductions	1,646,671
Balance carried to Consolidated Earned Surplus	$ 6,263,187

Notes:

† Does not include maintenance incurred in the production of crude oil, gasoline, and sulphur. Such maintenance, together with all other costs, is transferred to inventory and subsequently, upon sale, is included in cost of product sold in the current period.

* Includes provision of $184,666.92 for Federal excess profits tax.

All intercompany transactions have been eliminated from the above statement. Interest and preferred dividend deductions of subsidiaries represent full requirements for the period (whether paid or not paid) on securities held by the public and give no effect to preferred stock dividend arrearages for prior periods. The "Portion applicable to Minority Interests" is the calculated portion of the balance of income applicable to minority holdings by the public of common stocks of subsidiaries. Minority interests have not been charged with deficits where income accounts of subsidiaries have so resulted. The "Net Equity of Electric Power & Light Corporation in Income of Subsidiaries" includes interest and preferred dividends paid or earned on securities held, plus the proportion of earnings which accrued to common stocks held by Electric Power & Light Corporation, less losses where income accounts of individual subsidiaries have resulted in deficits for the period.

Consolidated balance sheet notes 2, 3, and 7 are integral parts of this statement and should be considered in connection therewith.

Exhibit 7.

SCHEDULE OF LONG-TERM DEBT HELD BY PUBLIC IN SUBSIDIARIES OF ELECTRIC POWER & LIGHT CORPORATION

As of December 31, 1940.

Name of Issuer and Title of Issue	Date of Maturity	Outstanding	Held in Treasury	Held Intercompany	Held by Public
Mortgage Bonds:					
Arkansas Power & Light Company:					
First and Refunding Mortgage Gold Bonds, 5% Series Due 1956	10/ 1/56	$35,000,000.00	.....	.....	$ 35,000,000.00
First and Refunding Mortgage Gold Bonds, 2.75% Series Due 1959	7/ 1/59	200,000.00	.....	.....	200,000.00
First and Refunding Mortgage Gold Bonds, 2.88% Series Due 1956	10/ 1/56	310,000.00	.....	.....	310,000.00
Dallas Power & Light Company:					
First Mortgage Bonds, 3½% Series Due 1967	2/ 1/67	16,000,000.00	.....	.....	16,000,000.00
Dallas Railway & Terminal Company:					
First Mortgage Gold Bonds, 6% Series Due 1951	7/ 1/51	4,703,000.00	.....	.....	4,703,000.00
Idaho Power Company:					
First Mortgage Bonds, 3¼% Series Due 1967	10/ 1/67	18,000,000.00	.....	.....	18,000,000.00
Louisiana Power & Light Company:					
First Mortgage Gold Bonds, 5% Series, Due 1957	12/ 1/57	17,500,000.00	.....	.....	17,500,000.00
Mississippi Power & Light Company:					
First Mortgage Gold Bonds, 5% Series, Due 1957	12/ 1/57	16,000,000.00	.....	.....	16,000,000.00
New Orleans Public Service Inc.:					
First and Refunding Mortgage Gold Bonds, Series A, 5%	10/ 1/52	11,872,500.00	.....	.....	11,872,500.00
First and Refunding Mortgage Gold Bonds, Series B, 5%	6/ 1/55	17,672,000.00	.....	.....	17,872,000.00
General Lien Four and One-Half Per Cent. Gold Bonds, Due July 1, 1935 (10% Paid)—Maturity extended, with interest at 5%	7/ 1/42	1,843,560.00	.....	.....	1,843,560.00
†New Orleans City Railroad Company—General Mortgage 4—5 Per Cent. Gold Bonds	7/ 1/43	3,164,000.00	.....	.....	3,164,000.00
†New Orleans City and Lake Railroad Company—Consolidated First Mortgage Fifty Year Five Per Cent. Gold Bonds	1/ 1/43	1,663,000.00	.....	.....	1,663,000.00
†New Orleans Power House Company, Limited—First Mortgage Forty-Two Year Five Per Cent. Power House Gold Bonds	7/ 1/43	200,000.00	.....	.....	200,000.00
†Canal & Claiborne Railroad Company—Six Per Cent. Fifty-Years Gold Mortgage Bonds	5/ 1/46	441,500.00	.....	.....	441,500.00
†Saint Charles Street Railroad Company—First Mortgage Four Per Cent. Fifty Year Gold Bonds	1/ 1/52	283,000.00	.....	.....	283,000.00
Utah Light and Traction Company:					
**Thirty-Year First and Refunding Mortgage Gold Bonds Series A, 5%	10/ 1/44	12,535,300.00	$ 352,300.00	.....	12,183,000.00
Utah Power & Light Company:					
Thirty-Year First Mortgage Five Per Cent. Gold Bonds	2/ 1/44	33,607,000.00	a4,234,000.00	.....	29,373,000.00
"First Lien and General Mortgage Gold Bonds, Series of "4½s due 1944"	2/ 1/44	4,234,000.00	.....	.....	4,234,000.00
The Western Colorado Power Company:					
5% First Mortgage Gold Bonds	Due On Demand	3,884,000.00	.....	a$3,884,000.00	.....
Total Mortgage Bonds					190,842,560.00
Collateral Trust Bonds:					
Houston Gas Securities Company:					
5% Collateral Trust Gold Bonds	3/ 1/52	3,900,000.00	.....	.....	3,900,000.00
Total Mortgage and Collateral Trust Bonds Forward					$194,742,560.00

Exhibit 7.

SCHEDULE OF LONG-TERM DEBT HELD BY PUBLIC IN SUBSIDIARIES OF ELECTRIC POWER & LIGHT CORPORATION

As of December 31, 1940.

(Continued)

Name of Issuer and Title of Issue	Date of Maturity	Outstanding	Held in Treasury	Held Intercompany	Held by Public
TOTAL MORTGAGE AND COLLATERAL TRUST BONDS FORWARD					$194,742,500.00
DEBENTURES:					
United Gas Corporation:					
†United Gas Public Service Company 6% Debentures	7/ 1/53	$55,150,000.00	$26,300,000.00	c$3,850,000.00	25,000,000.00
†United Gas Public Service Company Twenty-Year 6% Gold Debentures	3/ 1/52	4,587,000.00	2,000.00	c 4,585,000.00	—
Utah Power & Light Company:					
Six Per Cent. Gold Debenture Bonds, Series A	5/ 1/2022	5,000,000.00	.....	.....	5,000,000.00
TOTAL DEBENTURES					30,000,000.00
MORTGAGE INCOME BONDS:					
New Orleans Public Service Inc.:					
Six Per Cent. Mortgage Gold Income Bonds, Series A	11/ 1/49	4,624,700.00	.....	.....	4,624,700.00
Six Per Cent. Mortgage Gold Income Bonds, Series B	11/ 1/49	680.00	.....	.....	680.00
TOTAL MORTGAGE INCOME BONDS					4,625,380.00
NOTES PAYABLE TO BANKS:					
Houston Gulf Gas Company:					
2½% Five Year Note, dated August 29, 1940, payable $600,000 semiannually	8/29/45	6,000,000.00	.....	.....	6,000,000.00
United Gas Pipe Line Company:					
2% Five Year Note, dated December 30, 1940, payable $100,000 semiannually	12/30/45	1,000,000.00	.....	.....	1,000,000.00
TOTAL NOTES PAYABLE TO BANKS					7,000,000.00
Less Currently Maturing (included among Current Liabilities)					1,400,000.00
BALANCE—NOTES PAYABLE TO BANKS					5,600,000.00
MISCELLANEOUS:					
Arkansas Power & Light Company	Various	35,176.00	.....	.....	50
Capital Transportation Company	Serially to 9/1/50	20,036.80	.....	.....	20,036.80
Louisiana Power & Light Company	Various	113,538.85	.....	.....	113,538.85
Mississippi Power & Light Company	Various	291,237.75	.....	.....	291,237.75
***Utah Light and Traction Company	Annually 1943 to 1962	261,114.82	.....	.....	261,114.82
United Gas Pipe Line Company	Various	302,708.46	.....	.....	302,708.46
United Oil Pipe Line Company	$1,600.00 Semiannually	3,200.00	.....	.....	3,200.00
Union Producing Company	Various	284,623.86	.....	.....	284,673.86
TOTAL MISCELLANEOUS					1,[illegible]
Less Currently Maturing (included among Current Liabilities)					25,[illegible]
BALANCE—MISCELLANEOUS					1,096,301.80
TOTAL LONG-TERM DEBT OF SUBSIDIARIES PER CONSOLIDATED BALANCE SHEET					$236,064,327.80

NOTES:

In addition to issues held by the public, the above schedule includes certain issues in which no public holding exists, but in which intercompany holdings are pledged as indicated.

† Assumed by company under which listed.

c Interest was payable at the rate of 4% up to and including July 1, 1903.

** Payment of principal of and interest on bonds held by public guaranteed by Utah Power & Light Company.

*** Payment of principal and interest guaranteed by Utah Power & Light Company.

A Pledged as collateral to Utah Power & Light Company First Lien and General Mortgage Gold Bonds, Series of "4½s due 1944".

B Pledged, together with 34,991 shares of capital stock of The Western Colorado Power Company, as collateral to Utah Power & Light Company Thirty-Year First Mortgage Five Per Cent. Gold Bonds.

C Pledged as collateral to Houston Gas Securities Company 5% Collateral Trust Gold Bonds.

Exhibit 8.

SCHEDULE OF PREFERRED STOCKS HELD BY PUBLIC IN SUBSIDIARIES OF ELECTRIC POWER & LIGHT CORPORATION

As of December 31, 1940

Name of Issuer and Title of Issue	Issued	Held Intercompany	Held in Treasury and Reacquired	Held by Public
Arkansas Power & Light Company:				
$7 Preferred—Cumulative—No Par Value	96,131	7,697	216	88,218
$6 Preferred—Cumulative—No Par Value	50,000	.....	3,690	46,310
Dallas Power & Light Company:				
7% Preferred—Cumulative—$100 Par Value	35,000	.....	.....	35,000
$6 Preferred—Cumulative—No Par Value	43,731	.....	.....	43,731
Dallas Railway & Terminal Company:				
7% Preferred—Cumulative—$100 Par Value	15,000	11,000	157	3,843
Idaho Power Company:				
Preferred (7%)—Cumulative—$100 Par Value	38,010	3,030*	3,210	31,770
$6 Preferred—Cumulative—No Par Value	30,000	.....	1,543	28,457
Louisiana Power & Light Company:				
$6 Preferred—Cumulative—No Par Value	60,000	520	578	58,902
Mississippi Power & Light Company:				
$6 Preferred—Cumulative—No Par Value	69,000	1,493	1,732	65,775
New Orleans Public Service Inc.:				
Preferred ($7)—Cumulative—No Par Value	77,798	9,806	.....	67,992
United Gas Corporation:				
$7 Preferred—Cumulative—No Par Value	449,822	.....	.....	449,822
Houston Gulf Gas Company:				
7% Preferred, Series A—Cumulative—$100 Par Value	10,000	7,952	1,940	108
7% Preferred, Series B—Cumulative—$100 Par Value	15,000	14,990	.....	10
Utah Power & Light Company:				
$6 Preferred—Cumulative—No Par Value	41,921	.....	.....	41,921
$7 Preferred—Cumulative—No Par Value	207,605	2,100	.....	205,505
TOTAL	1,239,018	58,588	13,066	1,167,364

NOTE:

* Pledged, together with 150,000 shares of common stock of Idaho Power Company, with Bankers Trust Company, Trustee, as collateral to Power Securities Corporation Collateral Trust Gold Bonds, American 6% Series. (These bonds were called for redemption on June 1, 1941 and pledged securities were returned to Electric Power & Light Corporation).

Exhibit 9.

SCHEDULE OF INVESTMENTS OF ELECTRIC BOND AND SHARE COMPANY IN ELECTRIC POWER & LIGHT CORPORATION AND SUBSIDIARIES

As of December 31, 1940

Company and Issue	Number of Shares or Principal Amount	Percent of Total Outstand
Electric Power & Light Corporation:		
$7 Preferred Stock	485 Shs.	.09
Second Preferred Stock, Series A ($7)	13,905 Shs.	18.43
Common Stock	1,976,638 Shs.	57.27
Option Warrants to Purchase Common Stock	393,408 Shs.	72.23
Arkansas Power & Light Company:		
First and Refunding Mortgage Gold Bonds, 5% Series	$915,000.00	2.61
Louisiana Power & Light Company:		
First Mortgage Gold Bonds, 5% Series	$377,000.00	2.15
Mississippi Power & Light Company:		
First Mortgage Gold Bonds, 5% Series	$431,000.00	2.69
New Orleans Public Service Inc.:		
First and Refunding Mortgage Gold Bonds, Series A, 5%	$397,000.00	3.34
First and Refunding Mortgage Gold Bonds, Series B, 5%	$503,000.00	2.81
Utah Power & Light Company:		
Thirty-Year First Mortgage Five Per Cent. Gold Bonds	$300,000.00	1.02
United Gas Corporation:		
$7 Preferred Stock	17,310 Shs.	3.85
Common Stock	752,666 Shs.	9.63
Option Warrants to Purchase Common Stock	151,005 Shs.	3.10
United Gas Public Service Company, 6% Debentures	$25,000,000.00	86.65
6% Note, due on demand	$25,925,000.00	100.00
Account Payable	$2,000,000.00	100.00
Houston Gas Securities Company:		
5% Collateral Trust Gold Bonds	$440,000.00	11.28

EXHIBIT II.

RESOLUTIONS

Resolutions of the Board of Directors of the Company authorizing the execution and filing of this Application and any and all amendments thereto.

This certifies that this is a true and complete copy of resolutions passed at a meeting of the Board of Directors of Electric Power & Light Corporation, held at 2 Rector Street, New York, N. Y., on November 28, 1941, at which a majority of such directors was present and voting throughout:

"RESOLVED that the officers of the Company be, and they hereby are, authorized and directed to execute, verify and file with the Securities and Exchange Commission an Application pursuant to Section 11(e) of the Public Utility Holding Company Act of 1935, with amendment or amendments thereto, as prescribed by the Securities and Exchange Commission pursuant to said Act, with any and all exhibits necessary or appropriate thereto; and further

RESOLVED that the officers of the Company be, and they hereby are authorized and directed to take such other and further steps as in their opinion, and in the opinion of counsel for the Company, may be necessary or appropriate in aid and furtherance of the matters acted upon by the Board of Directors of this Company at this meeting as set forth in general in the resolutions adopted at this meeting."

The above resolutions have not been modified, altered or rescinded and remain in full force and effect.

WITNESS my hand and the seal of said Company this 3rd day of December, 1941.

(SEAL) E. H. DIXON, Secretary.

EXHIBIT III.

Electric Power & Light Corporation
Two Rector Street, New York

December 4, 1941.

To the Holders of Capital Stock of Electric Power & Light Corporation:

A Plan dated as of November 28, 1941, for compliance with Sections 11(b)(1) and 11(b)(2) of the Public Utility Holding Company Act of 1935 has been adopted by the Board of Directors of Electric Power & Light Corporation and is being submitted to the Securities and Exchange Commission under the provisions of such Act. A copy of the Plan is enclosed herewith for your information. No action on the part of stockholders is required at the present time.

It is the opinion of the Board of Directors that the Plan is in the interests of the Company and its security holders and constitutes a major step in the solution of the problems affecting Electric Power & Light Corporation under the Public Utility Holding Company Act.

Respectfully submitted.

By order of the Board of Directors,

JOE H. GILL, President.

[DOCUMENT No. 90.]

In the Matter of
Electric Bond and Share Company et al., Respondents.
File No. 59-12

STIPULATION *Re*
AMERICAN POWER & LIGHT COMPANY.

[Filed at Hearing August 22, 1942.]

Counsel for the Public Utilities Division and for respondent, American Power & Light Company (American) having

heretofore stipulated on the record that they have no further evidence to present concerning said respondent and that as to it the record may be deemed closed;

And a copy of Commission's proposed findings, opinion and order having been exhibited to counsel for American;

And it appearing therefrom that the objections made by respondent American in motions and exceptions, or otherwise in the record, have been fully presented to and urged before the Commission, and are ruled upon in said findings, opinion and order;

It is hereby stipulated that respondent American through its counsel hereby waives the filing of request for findings, further exceptions to the findings and opinion of the Commission, the filing of briefs and oral argument, but reserves all legal and constitutional rights, including its right to full judicial review of the said findings, opinion and order.

Subject to the foregoing reservations of rights, it is stipulated that the Commission may proceed to enter its findings, opinion and order without further formality.

ALFRED BERMAN,
Counsel for PUBLIC UTILITIES DIVISION.

SIMPSON, THACHER & BARTLETT,
by JOHN F. MACLANE.

REID & PRIEST,
by FRANK A. REID,
Counsel for AMERICAN POWER & LIGHT COMPANY.

Date: August 21, 1942.

For original see Comm. Exhibit No. 1070.

[Document No. 91.]

In the Matter of
Electric Bond and Share Company, et al., Respondents.
File No. 59-12

STIPULATION *Re*
ELECTRIC POWER & LIGHT CORPORATION.

[Filed at Hearing August 22, 1942.]

Counsel for the Public Utilities Division and for respondent, Electric Power & Light Corporation (Electric) stipulated that they have no further evidence to present concerning said respondent and that as to it the record may be closed;

And a copy of Commission's proposed findings, opinion and order having been exhibited to counsel for Electric;

And it appearing therefrom that the objections made by respondent Electric in motions and exceptions or otherwise in the record have been fully presented to and urged before the Commission, and are ruled upon in said findings, opinion and order;

It is hereby stipulated that respondent Electric through its counsel hereby waives the filing of request for findings, further exceptions to the findings and opinion of the Commission, the filing of briefs and oral argument, but reserves all legal and constitutional rights, including its right to full judicial review of said findings, opinion and order.

Subject to the foregoing reservations of rights, it is stipulated that the Commission may proceed to enter its findings, opinion and order without further formality.

ALFRED BERMAN,
Counsel for Public Utilities Division.

SIMPSON, THACHER & BARTLETT,
by John F. MacLane,

REID & PRIEST,
by FRANK A. REID,
WRIGHT, GORDON, ZACHRY, PARLIN & CAHILL,
by DANIEL JAMES,
Counsel for ELECTRIC POWER & LIGHT CORPORATION.

Date: August 21, 1942

For original see Commission Exhibit No. 1071.

[DOCUMENT No. 92.]

SECURITIES AND EXCHANGE COMMISSION
Philadelphia.

In the Matter of
Electric Bond and Share Company,
American Power & Light Company,
Pacific Power & Light Company,
Electric Power & Light Corporation,
Utah Power & Light Company,
National Power & Light Company,
Ebasco Services Incorporated,
Respondents

File No. 59-12

Public Utility Holding Company Act
of 1935—Section 11(b)(2)

FINDINGS AND OPINION OF THE COMMISSION.

[August 31, 1942.]

Simplification of Holding Company System
Undue and Unnecessary Complexity
Unfair and Inequitable Distribution of Voting Power
Action Required To Be Taken

Where subholding companies constitute the central tier in a holding company system and enable

the top holding company through ownership of a minority of their voting securities to control the entire system with disproportionately small investment, held that the corporate structure and continued existence of such subholding companies unfairly and inequitably distribute voting power among security holders of the system within the meaning of Section 11(b)(2).

Where subholding companies serve no economic purpose and perform no useful function with respect to their subsidiary companies or their investors and contribute to producing within a holding company system the vices of a pyramided structure, *held* that the continued existence of such subholding companies unduly and unnecessarily complicates the structure of the holding company system.

Where the continued existence and corporate structures of subholding companies unfairly and inequitably distribute voting power among security holders of a holding company system and unduly and unnecessarily complicate the structure of such system, held, under the facts and circumstances shown in the record that the dissolution of such companies is necessary to ensure compliance with the requirements of Section 11(b)(2).

Where plans are filed under Section 11(e) of the Act purportedly to bring subholding companies into compliance with Section 11 of the Act, but where such plans on their face are lacking in elements essential to to constitute true plans, and for other reasons fail to afford assurance of prompt and effective conformance to the provisions of Section 11, held that the filing of such 11(e) plans does not constitute a bar to the entry by the Com-

mission of an order of dissolution of the subholding companies which on the existing state of facts has been found necessary.

Appearances

MILTON H. COHEN, ALFRED BERMAN, and GEORGE L. RODGERS, Jr., for the Public Utilities Division of the Commission.

SIMPSON, THACHER & BARTLETT by JOHN F. MACLANE, IRA A. HAWKINS, Jr., DOUGLAS A. CALKINS, and GUNNAR FROMEN; and REID AND PRIEST by FRANK A. REID, for the respondents.

I. Present Status of the Proceeding

The present proceeding was instituted by us on May 9, 1940 under Section 11(b)(2) of the Public Utility Holding Company Act of 1935 against Electric Bond and Share Company ("Bond and Share"), American Power & Light Company ("American"), Electric Power & Light Corporation ("Electric"), National Power & Light Company ("National"), American & Foreign Power Company, Inc., Pacific Power & Light Company, Utah Power & Light Company, and Ebasco Services Incorporated. Our Notice and Order for Hearing *1/* states that on the basis of the detailed allegations recited therein we have reasonable grounds to believe that: (1) the structure of the holding company system of Bond and Share is unduly and unnecessarily complicated; (2) voting power is unfairly and inequitably distributed among security holders of the holding company system of Bond and Share; (3) Bond and Share is a holding company with respect to certain subsidiary companies which themselves have subsidiary companies which are holding companies. A hearing was ordered by us to be held for the purpose of determining *inter alia:* "whether it is necessary to

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1/ Holding Company Act Release No. 2051.

discontinue the existence of, or modify the corporate structure of, or redistribute the voting power among security holders of, said Electric Bond and Share Company or any of the other respondents."

By subsequent Order, dated June 7, 1940, *2/* we specified that the hearing should be confined initially to the sole issue of whether it is necessary to discontinue the existence of American, Electric, National, and American & Foreign Power Company, Inc., or any of them, in order to ensure that the structure of the holding company system of Bond and Share shall not be unduly or unnecessarily complicated and that voting power shall not be unfairly or inequitably distributed among the security holders in that system. */3*

The hearing was duly convened on June 18, 1940 and was held intermittently until July 22, 1942, at which time it was indefinitely continued subject to further order of the Commission. A voluminous record comprising more than 18,000 pages of testimony and more than 1500 exhibits has been assembled and is now before us. *4/*

In August 1941, although cross-examination of all Respondents' witnesses had not been completed, Counsel for

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2/ See Holding Company Act Release No. 2099 (7 S.E.C. 391).

3/ American & Foreign Power Company, Inc. was dismissed as a party to the proceeding by our Order dated June 17, 1940, such dismissal being without prejudice to any future appropriate proceedings under Section 11 (b) (2) or any other section of the Public Utility Holding Company Act of 1935. (Holding Company Act Release No. 2099.)

4/ During the progress of the hearing various motions relating to matters of procedure or the admissibility of evidence were presented to us by Counsel for the Public Utilities Division and Counsel for the Respondents. After hearing oral argument and examining the briefs submitted by Conusel, we issued interim orders respecting the questions presented. See Holding Company Act Releases No. 2196 (7 S.E.C. 881) and 2940 (9 S.E.C. 917). The various procedural and evidentiary questions which arose during the course of the hearing are described in detail in Holding Company Act Release No. 2962 (9 S.E.C. 978).

the Public Utilities Division and Counsel for the Respondents stipulated on the record that neither side desired to adduce further evidence with respect to Respondent National and that, as to it, the record might be deemed closed, and that the Commission might proceed to make its findings and enter its opinion and order upon such record. Pursuant to such stipulation, on August 23, 1941, we issued our Findings and Opinion answering in the affirmative the issue posed in our Order of June 7, 1940 so far as National was concerned.

Having found on the basis of our detailed "Findings and Opinion" that it was necessary to discontinue National's existence, we entered our Order requiring that effective steps be taken to such end. 5/

In making our findings with respect to the issue as it bore on National, we stated that:

> "We leave for fuure determination this same issue as regards American Power & Light Company and Electric Power & Light Corporation. Neither do we at this time decide the other issues stated in our Notice of and Order for Hearing dated May 9, 1940, as to which we previously reserved our jurisdiction in our Order of June 7, 1940, and which reservation of jurisdiction is hereby expressly reaffirmed."

Subsequent to the entry of the Findings and Opinion and Order as to National, the hearing was resumed and additional evidence presented as to the other Respondents. Counsel for the Public Utilities Division and for the Respondents have now stipulated on the record that they have no further evidence to present concerning Respondents American and Electric and that, as to them, the record may be deemed closed and the Commission may proceed to make its findings and enter its opinion and order upon such record. Counsel have also stipulated, as in the case of National, that they

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5/ Holding Company Act Release No. 2962 (9 S.E.C. 978).

have waived a trial examiner's report, and any right to submit to us proposed findings or to be heard further by us through oral argument or brief. However, the objections made by the Respondents in motions and exceptions have been urged before the Commission and are ruled upon below, and the stipulation of counsel recites that Respondents do not acquiesce in the present findings and conclusion or in the order to be entered hereon, and that they expressly reserve all legal and constitutional rights.

Accordingly, the question presently before us for appropriate disposition is whether the existence of American and Electric, like that of National, must be discontinued "in order to ensure that the structure of the holding company system of Electric Bond and Share Company shall not be unduly or unnecessarily complicated and that voting power shall not be unfairly or inequitably distributed among security holders of such system." The other issues stated in our Notice of and Order for Hearing, dated May 9, 1940, are not presented to us at this time, and as to them, our reservation of jurisdiction continues in effect. *6/*

6/ These reserved issues, as stated in our Notice and Order of May 9, 1940 (Holding Company Act Release No. 2051) include the following:

1. Whether it is necessary to discontinue the existence of, or modify the corporate structure of, or redistribute the voting power among security holders of Electric Bond and Share Company or any of the other Respondents.

2. What further action, if any, is necessary and shall be required to be taken by Respondents, or any of them, in order that each of the Respondents which is a registered holding company shall cease to be a holding company with respect to each of its subsidiary companies which itself has a subsidiary company which is a holding company.

3. What further action, if any, is necessary and shall be required to be taken by the Respondents, or any of them to ensure that the corporate structure or continued existence of any of the Respondents does not unduly or unnecessarily complicate the structure, or unfairly or inequitably distribute voting power among security holders, of the holding company system of Electric Bond and Share Company.

II. Pending Motions and Exceptions

Prior to putting in the Respondents' case and again at the conclusion of the hearing, their counsel made a motion to dismiss the Commission's Notice of and Order for Hearing and the proceeding itself on the following grounds: (1) that Section 11(b)(2) of the Act is unconstitutional; (2) that the Commission was without power to proceed with the hearing in this proceeding, except after the completion of, or auxiliary to, or in conjunction with, its proceeding under Section 11(b)(1) of the Act; (3) that as a preliminary to the determination of any of the questions involved in this proceeding the status of American Gas and Electric Company and its subsidiaries with respect to Bond and Share and its system must be determined upon said company's application under Section 2(a)(8) of the Act; (4) that the Notice and Order is defective for want of necessary parties in that subsidiary companies and security holders of the Respondents were not made parties; (5) that the allegations of the Notice and Order were vague and uncertain in that they lacked proper specification; (6) that the Commission has not made the examination and investigation contemplated by Section 11(a); and finally (7) that the evidence offered by Counsel for the Public Utilities Division failed "to establish the issues tendered by the Commission's Order of June 6, 1940".

Respondents' motion is hereby overruled; the various contentions being answered *seratim* as follows:

As to (1), we have several times ruled that the issue of constitutionality of the statutes we are charged with administering is not for us. 7/

As to (2), we have considered and rejected a similar contention in The Commonwealth & Southern Corporation (Holding Company Act Release No. 3432).

7/ *The North American Company*, Holding Company Act Release No. 3405, and decisions cited therein.

As to (3), while we deem it without merit, the point is moot in that we have already issued our Order denying American Gas and Electric Company's application to be declared not a subsidiary of Bond and Share. *8/*

As to (4), we have considered and rejected a similar contention in Northern New England Company, Holding Company Act Release No. 2464 (8 S. E..C. 419), International Utilities Corporation (Holding Company Act Release No. 3047), and The Commonwealth & Southern Corporation (Holding Company Act Release No. 3432).

As to (5), we find the point groundless, particularly in light of the admissions made by Respondents' Counsel in brief and argument on an earlier motion, *9/* and our ruling on the procedural questions heretofore submitted. *10/*

8/ Holding Company Act Release No. 2749 (9 S.E.C. 247).

9/ For example, at page 16 of the brief filed by Respondents on June 22, 1940, in support of a procedural motion, Respondents' Counsel stated:

"We further concede, likewise for the purpose of the present motion only, that the oral statement made by Commission's Counsel at R. pp. 173 to 180, inclusive, if confirmed by the Commission, might constitute a sufficient bill of particulars 'to inaugurate a definitive hearing upon the matters embraced in the statement; in other words, remedy any defect of indefiniteness and uncertainty in the Notice'."

Subsequent to the making of the above admission, Counsel for the Public Utilities Division served on Respondents' Counsel a 27 page statement setting forth in detail the contentions of Commission's Counsel and the relations of each portion of every exhibit to such contentions. With respect thereto we stated:

"But whatever may have been the situation when this motion was noticed, the supplemental written statement filed by Counsel for the Public Utilities Division, insofar as it relates each fact claimed to have been established to the specific exhibits or portions of exhibits relied upon, is, in our opinion, entirely adequate to apprise Respondents both of the contentions of Counsel for the Public Utilities Division and the evidence offered in support of each contention." (Holding Company Act Release No. 2196 [7 S.E.C. 881]).

10/ Holding Company Act Release No. 2196 (7 S.E.C. 881).

As to (6), without conceding the right of Respondents to raise the point, the fact is, as recited in our Notice of and Order for Hearing, that we did make examination pursuant to the statutory requirement. *11/*

Finally as to (7), although we do not think the contention had merit even at the time made, it is obvious, as the facts set forth in our Findings establish, that it is devoid of all foundation at present in light of the large amount of additional relevant evidence subsequently adduced by Counsel for the Public Utilities Division during cross-examination and rebuttal. *12/*

In addition to the motion to dismiss, Counsel for Respondents also filed a voluminous "statement on objections to exhibits and parts of exhibits" in which they moved to strike, in whole or in part, various of the exhibits introduced in evidence by Counsel for the Public Utilities Division. We have already ruled with respect to these exhibits that, in light of the detailed statement served on Respondents' Counsel by Counsel for the Division, adequate specification has been made as to the portion of each exhibit relied on and its bearing on the contentions of Counsel for the Division as related to the issues in the proceeding. The motion to strike these exhibits is based on grounds of relevance, competence, and unnecessary cumulativeness. The exhibits in question are generally very similar to those which we recently had occasion to describe and discuss in our Opinion in *The United Corporation. 13/* We held there that the data was

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11/ Holding Company Act Release No. 2051.

12/ In an administrative proceeding of the kind we are here dealing with, a motion to dismiss for insufficiency made by a Respondent at the close of Commission Counsel's case will not be determined until conclusion of the entire proceeding before the trial examiner, and will then be determined on the basis of the entire record. *Cf. Charles C. Wright, et al.* (1 S.E.C. 901).

13/ Holding Company Act Release No. 3592, pp. 6-13.

relevant to the issues and competent; and that it was not cumulative "since it may be as important to show the static quality or constancy of certain financial characteristics, as it is to demonstrate variability from year to year". The same ruling is applicable to the material which Respondents have here moved to strike, and such motion accordingly will be denied.

Counsel for the Respondents and for the Public Utilities Division have noted numerous exceptions with respect to rulings of the examiner admitting evidence. While undoubtedly considerable data was admitted in evidence which was of somewhat remote relevance, nothing has come to our attention which constitutes prejudicial error.

In addition, Counsel for American made certain formal offers of proof with respect to evidence bearing on valuation of assets relating primarily to merits of a certain Section 11(e) plan filed by American, discussed below. These offers of proof were rejected by the examiner on motion of Counsel for the Division, and exceptions noted by Respondents. In light of our ruling in *The Commonwealth & Southern Corporation, 14/* as to the inadmissibility of valuation testimony in an 11(b) (2) proceeding of this kind, and our discussion hereinafter set forth respecting the 11(e) Plan, *15/* we find the proffered evidence was properly denied admission.

On July 23, 1941, American, and on December 4, 1941, Electric, each filed with us a document entitled "Application Under Section 11(e) of Public Utility Holding Company Act of 1935. . . . For Approval of Plan to Enable . . . Company to Comply with Subsection (b) of Section 11 of said Act." These documents are referred to herein as the "11(e) Plans".

14/ Holding Company Act Release No. 2831 (9 S.E.C. 609).

15/ See Section VI of this Findings and Opinion.

After the filing of these documents, Counsel for both companies made a motion to consolidate the 11(e) Plans with the present proceeding, which motion is still pending.

The nature and contents of American and Electric's 11(e) Plans will be discussed at a later point in this opinion. *16/* For present purposes, it is sufficient to state that these plans were filed at a time when the record in the present proceeding was nearing completion. It appears that if consolidation were granted, the result would be to inject into the present proceeding issues of fact and law in many respects different from, and unrelated to, those here involved. In consequence, no useful purpose would be served by permitting the consolidation of the 11(e) Plans with the present proceeding, but on the contrary, delay and confusion would inevitably result. Accordingly, the motion for consolidation will be denied.

In seeking to resolve the ultimate issue now posed before us, our consideration has followed three principal avenues of inquiry, namely: (1) whether the structure of the holding company system of Bond and Share is unduly and unnecessarily complicated, or voting power unfairly and inequitably distributed among security holders of such system; (2) if so, whether such conditions are to a substantial extent attributable to the continued existence or capital structures of American and Electric or either of them; and (3) whether it is necessary to discontinue the existence of American and Electric or either of them in order to remedy these conditions in the manner contemplated by the statute.

With reference to these problems, the record of the present proceeding contains extraordinarily complete and detailed evidence respecting the development of the Bond and Share system and the historical and functional relations of the component parts of the system to one another.

16/ Section VI, *infra*.

Evidence on these subjects had been initially introduced upon the insistence of the Respondents (and over the objection of Counsel for the Public Utilities Division) that the Respondents be permitted through this historical approach to establish: (1) the circumstances and manner in which the present voting power distribution among security holders of the system was created, as bearing on the fairness and equity of such distribution; and (2) the valuable functions performed by the subholding companies in the past, as bearing on their present and future usefulness. Such evidence presented by the Respondents was substantially supplemented and clarified by Counsel for the Division through cross-examination and rebuttal.

Examination of this entire record has made it abundantly clear that all three questions listed above must be answered in the affirmative. *17/* In particular, the historical survey clearly established, as discussed hereinafter in detail, that the subholding companies in their origin were artificial contrivances interposed by Bond and Share into the structure of the system to serve as pyramiding devices, that these companies have continued to perform this particular function down to the present time, and that they have not in the past served, nor do they now serve, any useful and beneficial purpose. Accordingly, in light of the provisions of Section 11(b)(2) and the underlying policies of the Act, we have been impelled to the conclusion that it is necessary to require the dissolution of American and Electric.

Our detailed discussion of these matters will be under the following heads: (1) capitalization and structure of Bond and Share, American and Electric; (2) the role of

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17/ Indeed, it is apparent that even before the record reached completion, the Respondents themselves in effect conceded the affirmative of the first and second of the aforementioned questions by the filing of their 11 (e) plans, considered *infra*.

American and Electric in the development of the Bond and Share system; (3) the impact of Section 11 on American and Electric as they are now constituted; and (4) the contentions of Respondents respecting the 11(e) plans.

III. Capitalization and Structure of Bond and Share, American and Electric

A. *Bond and Share*

In our earlier Findings and Opinion dealing with National, we described in some detail the holding company system of Bond and Share. *17a/* We there pointed out that the Bond and Share system is a pyramid-like structure of which Bond and Share itself constitutes the apex, 5 subholding companies create an intermediate tier, *18/* and approximately 237 direct and indirect subsidiaries of the latter form the base. *18a/*

The 5 subholding company subsidiaries of Bond and Share and their consolidated subsidiaries have a combined consolidated capitalization (including surplus) of $2,889,561,848 and aggregate consolidated assets per books of $3,434,468,571. They constitute the largest single public utility holding company system registered under the Public Utility Holding Company Act of 1935. This is true not only in point of book capitalization and book assets, but also in respect of the number of customers and areas served by the

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17a/ *Electric Bond and Share Company et al*, Holding Company Act Release No. 2962 (9 S.E.C. 978).

18/ The 5 subholding companies are: American & Foreign Power Company, Inc., American Gas and Electric Company, and American, Electric and National. An appeal by American Gas and Electric Company from our Order denying its application to be declared not a subsidiary of Bond and Share is pending in the Court of Appeals for the District of Columbia.

18a/ See chart set forth as Appendix A.

operating companies of the system, and quantity of electricity generated and gas sold. *19/*

The capitalization and surplus of Bond and Share are as follows: *20/*

	Number of Shares	Stated Value
Capital Stock		
$5 Preferred Stock, No Par	280,300 shs.	$28,030,000.00
$6 Preferred Stock, No Par	1,101,955 shs.	110,195,500.00
Common Stock, $5 Par	5,250,357.66 shs.	26,251,788.33
Total Capital Stock		$164,477,288.33
Surplus		
Capital Surplus		$316,504,929.82
Earned Surplus		63,116,391.94
Total Surplus		$379,621,321.76
Total Capital Stock and Surplus		$544,098,610.09

B. *American*

The capitalization and surplus of American per books of the company (as of December 31, 1941), are as follows:

19/ The companies of the Bond and Share system (not including American & Foreign Power Company, Inc. and its subsidiaries) serve with electricity more than 2313 communities having a population of 2500 or more, and serve with gas more than 154 such communities. The total population of such communities is approximately 12,000,000, and they are located in 32 states of the United States.

The subsidiaries of American & Foreign Power Company, Inc. serve with electricity or gas more than 1021 communities located in 12 foreign countries, principally in Cuba and Central and South America.

The operating companies of the Bond and Share system in the United States in 1941 generated 21,000,000,000 kilowatt hours of electricity (or approximately 13% of the total central station energy generated by all utility companies in the United States in 1941) and sold a total of 281,381,000 Mcf. of gas (or 14% of the total sold in the United States in 1941 by all utility companies.)

20/ As of December 31, 1941.

Type of Security	Amount Outstanding	Principal Amount or Stated Value
Gold Debenture Bonds, American 6% Series, due 2016	$41,948,000	$41,948,000.00
Southwestern Power & Light Company, 6% Gold Debenture Bonds Series A, due 2022 (assumed)	3,901,000	3,901,000.00
Preferred Stock ($6), Cumulative No Par*	793,581 2/10 shs.	79,300,926.00
$5 Preferred Stock, Cumulative, No Par	978,444 shs.	97,844,400.00
Common Stock; No Par**	3,008,511 27/50 shs.	37,434,351.29
Capital Surplus		36,025.64
Earned Surplus		10,028,908.43
Total Capitalization and Surplus		$270,493,611.36

* Includes scrip equivalent to 26 2/10 shares.

** Includes scrip equivalent to 1,918 27/50 shares.

Each share of the Cumulative Preferred Stock and common stock is entitled to one vote with respect to the ordinary business of the corporation. The Preferred Stock ($6) and the $5 Preferred Stock have equal rank as to dividends and in liquidation in preference to the common stock and are entitled in liquidation to $100 per share plus unpaid cumulative dividends. As of December 31, 1941, unpaid cumulative dividends in arrears on the two classes of preferred stock totaled $35,114,788, *21/* representing more than 3½ years' requirements on each class.

Of the securities of American outstanding, Bond and Share owns 51,840 shares of the $5 Preferred Stock (5.30% of the number of shares of such issue outstanding) and 937,221 shares of the common stock (equal to 31.15% of the num-

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21/ $17,319,337 on the Preferred Stock ($6) or $21.82 per share; $17,795,450 on the $5 Preferred Stock or $18.18 per share.

ber of common shares outstanding). *22/* By reason of its ownership of these securities, Bond and Share is vested with 20.7% of the total voting power of all the securities of American. These shares of common and preferred stock have a stated or liquidating value, including surplus and preferred arrearages, of $9,966,795 or 3.68% of American's total capitalization of $270,493,611 (including long-term debt and surplus and after adjustment for preferred arrearages). Their carrying value on the books of Bond and Share is $23,739,432. At June 30, 1942, the approximate market value of such shares was $1,300,000.

22/ In addition to the securities of American owned by Bond and Share, the latter also owns debt securities of American's subsidiaries in the aggregate principal amount of $6,120,000, as follows:

Name of Company	Security	Principal Amount
Florida Power & Light Company	First Mortgage Gold Bonds 5% Series due January 1, 1954	$ 417,000
Minnesota Power & Light Company	First and Refunding Mortgage Gold Bonds, 5% Series due June 1, 1955	90,000
	First and Refunding Mortgage Gold Bonds, 4½% Series due May 1, 1978	161,000
Pacific Power & Light Company	First Mortgage and Prior Lien Gold Bonds, 5% Series due August 1, 1955	285,000
Texas Electric Service Company	First Mortgage Gold Bonds 5% Series, due July 1, 1960	254,000
Texas Power & Light Company	First and Refunding Mortgage Gold Bonds, 5% Series due November 1, 1956	113,000
	First Mortgage Bonds 4¾% Series due September 1, 1965	4,800,00
		$6,120,000

All the foregoing securities were acquired by Bond and Share by purchase on the open market from time to time, except the bonds of Texas Power & Light Company which were a direct purchase in 1935 in connection with a refunding operation.

American has the following 16 subsidiaries which are classed as public utility companies under the Act:

Name	State of Organization	Nature of Business
Central Arizona Light & Power Company	Arizona	Electric and Gas
Florida Power & Light Company	Florida	Electric and Gas
Kansas Gas and Electric Company	West Virginia	Electric
Minnesota Power & Light Company	Minnesota	Electric and Steam Heating
Montana Power Company (The)	New Jersey	Electric, Gas, Steam Heating, Water
Nebraska Power Company	Maine	Electric
New Mexico Electric Service Company	New Mexico	Electric
Northern Power Company	Wisconsin	Electric
Northwestern Electric Company	Washington	Electric and Steam Heating
Pacific Power & Light Company	Maine	Electric, Steam Heating, Water
Portland Gas & Coke Company	Oregon	Gas
Superior Water, Light and Power Company	Wisconsin	Electric, Gas, Water
Texas Electric Service Company	Texas	Electric
Texas Power & Light Company	Texas	Electric
Texas Public Utilities Corporation	Texas	Electric, Ice, Water
Washington Water Power Company (The)	Washington	Electric, Water, Steam Heating

American has 6 additional direct subsidiaries, which are not public utility companies within the meaning of the Act, and 13 additional indirect non-utility subsidiaries, as identified in Appendix A.

The consolidated capitalization of American and its subsidiaries as per balance sheet of December 31, 1941, was as follows:

Long Term Debt	
American	$ 45,849,000
Subsidiaries	311,437,072

Preferred Stocks		
American	177,145,326	
Subsidiaries	11,622,100	
Minority Interest	621,193	
Undeclared Cumulative Dividends on Preferred Stock of Subsidiaries Held by Public	3,615,226	22a/
Common Stock		
American	37,434,351	
Capital Surplus	36,026	
Earned Surplus	45,968,643	
	$733,728,937	

The foregoing statement of consolidated capitalization does not reflect undeclared cumulative dividends in arrears on the preferred stocks of American at December 31, 1941 amounting to $35,114,788.

The consolidated assets of American and its subsidiaries at December 31, 1941, were carried at $851,251,525. The aggregate par, stated or assigned value of the securities of its subsidiaries owned by American was $260,227,223, and their book value on the books of the issuers, including surplus and preferred dividend arrearages, was $304,787,950. American carried these securities in its investment account at $251,537,054.

The securities of its public-utility subsidiaries owned by American at December 31, 1941, represented the following percentages of the total debt and stock capitalization, including surplus, and of total voting power of the respective companies.

22a/ Preferred dividends in arrears:

Portland Gas & Coke Company	$3,283,161
Preferred Dividends accrued	332,065
	$3,615,226

Name	Total Debt and Stock Capitalization Including Surplus*	% of Capitalization Represented by Securities Owned by American	% of Total Voting Power of Securities Owned by American
Central Arizona Light & Power Company	$ 12,063,787	32.23	98.04
Florida Power & Light Company	124,706,306	46.86	100.00
Kansas Gas and Electric Company	35,196,471	24.32	90.55
Minnesota Power & Light Company	74,024,334	34.19	93.04
Montana Power Company (The)	139,129,358	53.14	93.73
Nebraska Power Company	36,861,039	24.66	89.90
New Mexico Electric Service Company	1,459,055	99.99	99.99
Northern Power Company	737,872	98.80	98.80
Northwestern Electric Company	18,854,680	39.10	67.65
Pacific Power & Light Company	38,764,418	29.83	94.66
Portland Gas & Coke Company	21,218,200	11.07	83.23
Superior Water Light and Power Company	4,192,105	89.40	66.59
Texas Electric Service Company	72,267,993	44.66	98.97
Texas Power & Light Company	80,982,852	35.68	96.77
Texas Public Utilities Corporation	2,881,543	99.98	99.98
Washington Water Power Company (The)	63,261,743	48.67	99.69

* After adjustment for preferred dividend arrearages, to eliminate reacquired preferred stocks, and to restate preferred stocks at liquidating values.

As of December 31, 1941, the public utility subsidiaries of American served with electricity approximately 148 communities having a population of 2,500 or over and served

with gas some 26 such communities. The total population of the communities so served was approximately 2,740,000, these communities being located in the States of Arizona, Florida, Idaho, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, Oregon, Texas, Washington, and Wisconsin.

Each of the 16 public utility subsidiaries of American has a comprehensive complement of skilled personnel. During the year 1940, the aforementioned 16 subsidiaries of American had an aggregate of 12,757 officers and employees, and annual payrolls aggregating $21,906,576. *23/*

Each of the public utility subsidiaries of American has continuously since the formation of Ebasco Services Incorporated, *23a/* in November, 1935, had a service contract with that company. Pursuant to such contracts, the subsidiaries of American have each year paid to Ebasco Services Incorporated, the fees provided therein and have received (or

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23/

Name	Officers and Employees	Payroll
Central Arizona Light & Power Company	469	$ 901,283
Florida Power & Light Company	1,891	3,014,802
Kansas Gas and Electric Company	964	1,655,244
Minnesota Power & Light Company	901	1,584,691
Montana Power Company (The)	1,171	2,478,973
Nebraska Power Company	850	1,550,142
New Mexico Electric Service Company	60	63,501
Northern Power Company	14	4,161
Northwestern Electric Company	551	1,082,960
Pacific Power & Light Company	865	1,565,652
Portland Gas & Coke Company	673	1,103,783
Superior Water Light & Power Company	163	269,145
Texas Electric Service Company	913	1,617,042
Texas Power & Light Company	1,617	2,384,058
Texas Public Utilities Corporation	235	222,777
Washington Water Power Company (The)	1,420	2,408,342
Total	12,757	$21,906,576

23a/ Ebasco Services Incorporated is a wholly owned subsidiary of Bond and Share which "services" the operating companies of the system. See discussion *infra*.

have been entitled to receive) consultative, technical or other services incident to the conduct of their operations, including services with respect to financing and refinancing programs.

C. *Electric*

The capitalization and surplus of Electric per books of the company as of December 31, 1941, were as follows:

Type of Security	Amount Outstanding	Principal Amount or Stated Value
Gold Debentures, 5% Series, Due 2030	$30,380,000	$ 30,380,000
$7 Preferred Stock, Cumulative, No Par	515,135 shs.*	
$6 Preferred Stock, Cumulative, No Par	255,430 2/3 shs.	155,044,139
Second Preferred Stock, Series A, ($7) Cumulative, No Par	75,189 shs.	
Common Stock, No Par	3,453,189 shs.**	
Earned Surplus		6,868,838
Total Capitalization and Surplus		$192,292,977

*Includes 973 shares held in Treasury:

**Includes 902 shares held in Treasury.

In addition to the securities set forth above, Electric had outstanding as of December 31, 1941, 536,254 option warrants entitling the holders, without limitation as to time, to purchase a like number of shares of common stock at $25 a share. *24/*

Each share of $7 Preferred Stock, $6 Preferred Stock,

24/ In lieu of cash, each share of Second Preferred Stock, Series A, ($7) surrendered with option warrants for four shares of common stock is accepted at $100 in payment for four shares of common stock.

and common stock of Electric is entitled to one vote with respect to ordinary business of the corporation. The Second Preferred Stock, Series A ($7) has no general voting power.

The $7 Preferred and $6 Preferred Stock have equal rank, prior to the Second Preferred Stock, Series A ($7) as to dividends and in liquidation, and have a liquidating value of $100 per share plus unpaid cumulative dividends. As of June 30, 1942, unpaid cumulative dividends in arrears on both classes of preferred stock totaled $47,810,357, *25/* representing more than 9 years' requirements on each class. The Second Preferred Stock, Series A ($7) has a liquidating value of $100 per share plus unpaid cumulative dividends. As of June 30, 1942, dividends in arrears on this stock totaled $5,394,811 ($71.75 per share) representing approximately 10 years' requirements on the Second Preferred Stock, Series A ($7).

Of the securities of Electric outstanding, Bond and Share owns 485 shares of the $7 Preferred Stock (.09% of the number of shares of such issue outstanding), 13,905 shares of the $7 Second Preferred Stock (18.5% of the number of shares of such issue outstanding) and 1,976,638 shares of the common stock. (57.3% of the number of shares of such issue outstanding). In addition, Bond and Share owns 393,408 option warrants to purchase common stock. By reason of its ownership of these securities, Bond and Share is vested with 46.8% of the total voting power of all the securities of Electric. The securities owned by Bond and Share have a stated or liquidating value, including surplus and preferred arrearages, of $17,558,108, or 9.14% of Electric's total capitalization of $192,189,868, including surplus.

25/ Of which $33,531,932 or $65.21 per share was applicable to the $7 preferred stock and $14,278,425 or $55.90 per share was applicable to the $6 preferred stock.

Their carrying value on the books of Bond and Share is $36,606,916. At June 30, 1942, the market value of such securities was approximately $2,000,000. *26/*

Electric has the following ten subsidiaries which are classed as public utility companies under the Act:

Name	State of Organization	Nature of Business
Arkansas Power & Light Company	Arkansas	Electric, gas, water, ice and heating. *27/*
Dallas Power & Light Company	Texas	Electric
Idaho Power Company	Maine	Electric
Louisiana Power & Light Company	Florida	Electric, gas, transportation and ice
Mississippi Power & Light Company	Florida	Electric, gas, and water
New Orleans Public Service Inc.	Louisiana	Electric, gas, and transportation
United Gas Corporation	Delaware	Gas

26/ In addition to the securities of Electric owned by Bond and Share, the latter also owns certain of the securities of Electric's subsidiaries as follows:

Subsidiary	Security	Principal Amount or Number of Shares
Arkansas Power & Light Company	5% First and Refunding Mortgage Bonds	$ 915,000
Houston Gas Securities Company	5% Collateral Trust Bonds	440,000
Louisiana Power & Light Company	5% First Mortgage Bonds	377,000
Mississippi Power & Light Company	5% First Mortgage Bonds	431,000
New Orleans Public Service Inc.	5% First and Refunding Mortgage Bonds	900,000
Utah Power & Light Company	5% Thirty-year Bonds	300,000
United Gas Corporation	6% Debentures	25,000,000
" " "	6% Demand Notes	25,925,000
" " "	6% Advance on open account	2,000,000
" " "	$7 Preferred Stock ($100 liq. value)	17,310 shares
" " "	Common Stock ($1 par value)	752,666 shares
" " "	Option Warrants	151,005 shares

27/ Leases transportation facilities to its subsidiary Capital Transportation Company.

Name	State of Organization	Nature of Business
Utah Power & Light Company	Maine	Registered holding company, electric and heating
Utah Light and Traction Company	Utah	Electric and transportation *28/*
The Western Colorado Power Company	Colorado	Electric

The last two companies, in addition to being subsidiary companies of Bond and Share and of Electric, are subsidiary companies of Utah Power & Light Company, a registered holding company.

Electric has 3 additional direct subsidiaries, which are not public utility companies within the meaning of the Act, and 11 additional indirect non-utility subsidiaries, as shown in Appendix A.

The consolidated capitalization of Electric and its subsidiaries as per balance sheet of December 31, 1941 was as follows:

Long Term Debt	
Electric	$ 30,380,000
Subsidiaries	260,441,615 *29/*
Preferred Stocks	
Electric	84,575,467
Subsidiaries	117,405,300
Minority Interest	2,534,194

28/ Leases electric facilities to Utah Power & Light Company.

29/ Includes United Gas Corporation Unsecured Note—6% due on demand, $25,925,000, and Advance on Open Account—6% due on Demand, $2,000,000 both held by Bond and Share and carried as current liabilities on United's balance sheet. Cf. Holding Company Act Release No. 3301.

Undeclared Cumulative Dividends on Preferred Stock of Subsidiaries Held by Public	$17,803,228	29A/
Common Stock		
Electric	70,468,672	
Earned Surplus	33,987,475	
	$617,595,951	

The foregoing statement of consolidated capitalization does not reflect undeclared cumulative dividends in arrears on the preferred stocks of Electric at December 31, 1941 amounting to $50,889,325.

The consolidated assets of Electric and its subsidiaries, at December 31, 1941, were carried at $749,183,549. The aggregate par, stated or assigned value of the securities of its subsidiaries owned by Electric was $199,802,994, and their book value on the books of the issuers, including surplus and preferred dividend arrearages, was $256,415,384. Electric carried these securities in its investment account at $184,409,070.

The securities of its public utility subsidiaries owned by Electric at December 31, 1941, represented the following percentages of the total debt and stock capitalization (including surplus) and of total voting power of the respective companies.

29A/ Preferred Dividends in arrears:

Dallas Railway & Terminal Company	$ 219,692
Mississippi Power & Light Company	312,431
United Gas Corporation	9,315,064
Utah Power & Light Company	7,746,113
Preferred dividends accrued	209,928
	$17,803,228

Name	Total Debt and Stock Capitalization Including Surplus**	% Of Capitalization Represented by Securities Owned by Electric	% of Total Voting Power of Securities Owned by Electric
Arkansas Power & Light Company*	$ 64,237,910	23.7	90.2
Dallas Power & Light Company	30,084,423	18.8	70.0
Idaho Power Company	42,604,195	43.5	71.6
Louisiana Power & Light Company	34,801,488	32.4	95.4
Mississippi Power & Light Company	32,645,490	29.2	94.0
New Orleans Public Service Inc.	68,770,990	30.4	95.1
United Gas Corporation*	256,334,928	54.6	61.6
Utah Power & Light Company*	109,483,831	23.7	92.4

* Consolidated Basis.

** After adjustment for preferred dividend arrearages, to eliminate reacquired preferred stocks, and to restate preferred stocks at liquidating values.

As of December 31, 1941, the public utility subsidiaries of Electric served with electricity approximately 104 communities having a population of 2,500 or over and served with gas some 98 such communities. The total population of the communities so served was approximately 2,808,244, these communities being located in the states of Arkansas, Colorado, Idaho, Louisiana, Mississippi, Nevada, Oregon, Texas, Utah, and Wyoming, and in Mexico. Public services of various kinds including electric and gas were rendered by all subsidiaries to approximately 195 communities having a total population of approximately 3,712,907, these communities being located in the states of Alabama and Florida in addition to the states listed above.

Each of the active subsidiaries of Electric has a comprehensive complement of skilled personnel. During the

year 1940, the subsidiaries of Electric had an aggregate of 14,185 officers and employees and annual payrolls aggregating $23,200,676.58. *30/*

Each of the public utility subsidiaries of Electric has continuously since the formation of Ebasco Services Incorporated, in November 1935, has a service contract with that company. Pursuant to such contracts, the subsidiaries of Electric have each year paid to Ebasco Services Incorporated, the fees provided therein and have received (or have been entitled to receive) consultative, technical and other services incident to the conduct of their operations, including services with respect to financing and refinancing programs.

IV. The role of American and Electric in the development of the Bond and Share System.

A. *Creation of the Bond and Share System*

Bond and Share was organized under the laws of New York on February 27, 1905, by the General Electric Company, a leading manufacturer of electrical equipment. General Electric's purpose in the formation of Bond and Share seems to have been threefold: (1) to realize as fully as possible upon various utility securities which it had acquired

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	Officers and Employees	Payroll
Arkansas Power & Light Company	1,055	$ 1,662,816.49
Dallas Power & Light Company	992	1,711,538.00
Idaho Power Company	845	1,609,400.28
Louisiana Power & Light Company	857	1,262,482.52
Mississippi Power & Light Company	846	1,316,763.24
New Orleans Public Service Inc.	2,878	4,827,032.32
United Gas Corporation and subsidiaries	4,991	7,842,463.00
Utah Power & Light Company	1,261	2,295,308.50
Utah Light and Traction Company	343	505,670.52
The Western Colorado Power Company	117	167,201.71
	14,185	$23,200,676.58

in the process of selling its equipment; (2) to obtain for itself a direct proprietary stake in a promising young industry with which it was already closely affiliated; (3) to utilize the position it would acquire as a proprietary factor in the utility industry to advance the sales of its equipment.

At the outset, General Electric invested approximately $1,300,000 in cash in Bond and Share, and turned over to it miscellaneous securities having a par value of $1,258,150. In return it received from Bond and Share all that company's outstanding capital stock consisting of $2,000,000 par value common and $2,000,000 par value preferred. During the next twenty years (up to January 20, 1925) General Electric subscribed for additional common stock from Bond and Share in an aggregate total of approximately $16,000,000 cash and securities having a par value of some $3,000,000. *31/*During the same period General Electric received from Bond and Share more than $13,000,000 as cash dividends and $4,000,700 par value of common stock as stock dividends. When in 1925, General Electric disposed of its investment in Bond and Share, the market appraised its value at about $117,000,000. *32/* The record also indicates that during the entire period of Bond and Share's existence, General Electric Company had sold to companies of

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31/ In addition, it subscribed from time to time for preferred stock, all of which it sold, together with the preferred stock originally acquired, except 300 shares which it still held at January 30, 1925. At the latter date, General Electric's book investment in Bond and Share consisting of the 300 shares of preferred and the 250,000 shares of common (the entire amount of common outstanding) was $25,000,000.

32/ Based on an average market price of $65 per share for the common stock of Electric Bond and Share Securities Corporation for the 43-week period from February 28, to December 28, 1935. During that period the price ranged from 55⅜ to 80¾ per share.

the Bond and Share system electrical equipment in vast amounts. *33/*

In December 1924, there was introduced in the United States Senate (68th Congress) Senate Resolution 286 charging General Electric Company with exercising undue control over the electric power industry, and shortly thereafter the Senate adopted Senate Resolution 329 (68th Congress, 2nd Session) directing the Federal Trade Commission to investigate to what extent and by what means the General Electric Company or its security holders ". . . monopolize or control the production generation or transmission of electric energy or power". *34/* On December 30, 1924, the board of directors of General Electric Company voted that the company should "divorce itself from the Electric Bond and Share Company". On January 13, 1925, a company called Electric Bond and Share Securities Corporation was organized, and on January 20, 1925, General Electric transferred to the new company its entire holdings of securities of Bond and Share in exchange for all the capital stock of the new company. *35/* This stock was then declared out as a dividend by General Electric to

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33/ Although a total figure for the entire period is not available, the record indicates that in a single 6-year period (1929-1934, inclusive) companies of the Bond and Share system purchased an aggregate of $308,000,000 of equipment, a substantial part of which came from General Electric Company.

34/ The investigation referred to was a predecessor of the comprehensive investigation of the utility industry which was thereafter undertaken by the Federal Trade Commission pursuant to Senate Resolution 83, Seventieth Congress, First Session (Approved February 15, 1928), to which reference is made in Section 1 (b) of the Public Utility Holding Company Act of 1935.

35/ All the officers and directors of Electric Bond and Share Securities Corporation, from organization in 1925 until consolidation and merger with Bond and Share in 1929, were officers and directors of Bond and Share or associated with the latter's counsel, Simpson Thatcher & Bartlett.

its stockholders. Subsequently, on March 13, 1929 Electric Bond and Share Securities Corporation was consolidated and merged with Bond and Share to form the present Bond and Share.

At December 31, 1924, just prior to the date when General Electric Company made the transfer of securities to the Securities Company in 1925, Bond and Share's capitalization totaled $69,487,887 ($25,000,000 common, $25,000,000 preferred, and $19,487,887 surplus). By the end of 1929, total capitalization had increased to $929,045,212, a write-up of $399,909,830 having taken place in connection with the consolidation and merger in March 1929. By the end of 1931, capitalization had decreased to $540,325,893, approximately its present amount, a write-down of $441,387,724 having been effected during the year 1931.

Throughout the history of Bond and Share, the company and its system were dominated primarily by the mind and spirit of one man—Sidney Z. Mitchell. *36/* Mitchell seems to have come to Bond and Share at its inception, already fully alive to the potentialities of the subholding company device as an instrumentality through which Bond and

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36/ From the organization of Bond and Share in 1905 until 1909, Mitchell was Vice-President and a Director (during this period Marsden T. Perry, an officer of General Electric, was President). From 1909 until 1929 Mitchell was President of Bond and Share and most of the subholding companies; from 1923 until March 1933, he was Chairman of the Board of Bond and Share and its subholding companies. On the latter date, Mitchell resigned all offices in the system and retired. The present management of Bond and Share and the subholding companies are for the most part individuals who were trained by and worked closely with Mitchell.

Mitchell appears to have enjoyed the complete confidence of the management of General Electric. At no time did General Electric have more than a relatively small number of direct representatives on Bond and Share's Board of Directors, and when General Electric in 1925 transferred control of Bond and Share to Electric Bond and Share Securities Corporation, Mitchell was made President and Chairman of the Board of the new company.

Share could exercise control of vast utility systems with a minimum of investment.

Indeed, the Mitchell plan seems to have contemplated at the outset that through effective use of the subholding company expedient, Bond and Share was to control its system with no investment, except such as was represented by the time and talents of its executives; and it was only in later years that the management of Bond and Share seems to have found it necessary or desirable to make some cash investments in control securities of its system.

Bond and Share made its first application of the Mitchell plan scarcely one year after the company's inception in the organization of American Gas and Electric Company, as a subholding company to take over the assets of Electric Company of America. We have elsewhere described the circumstances and details surrounding the organization of American Gas and Electric *37/* and deem it unnecessary to repeat them here; except to point out that from the organization and financing of American Gas and Electric Company in 1906, Bond and Share emerged with a profit of $30,000 cash and 4,700 shares of the company's common stock (having a par value of $235,000) equal to approximately 9.5% of the total voting securities, and with S. Z. Mitchell as chairman of the new company's Board of Directors and Executive Committee on both of which Bond and Share had heavy representation.

In 1909, Bond and Share took steps to set up another subholding company in its system. The resulting product was American, and the outcome for Bond and Share financially and in other respects was even more favorable than in the earlier formation of American Gas and Electric. The organization of American really established the basic pattern which Bond and Share followed in instance

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37/ American Gas and Electric Company (File No. 31-425), Holding Company Act Release No. 2749 (9 S.E.C. 247).

after instance during the following years, and which achieved probably its most polished form in the creation of Electric in 1925. Accordingly, the details of American's organization and subsequent operations merit particular attention.

B. *American*

1. Organization

Bond and Share caused American to be incorporated in September 1909 to acquire a group of securities representing a controlling interest in five utility enterprises, four of which operated in Kansas and one in Oregon. All of the securities involved were owned by Bond and Share *38/* and represented an investment by Bond and Share of approximately $1,700,000. *39/* The resolution of Bond and Share's executive committee approved the plan for the organization and financing of American "in order to minimize the risks and commitments of this company" in connection with the aforementioned securities.

As a first step in the organization and financing of American, a so-called "syndicate" was organized with Bond and Share as syndicate manager. The function of the syndicate was to acquire from Bond and Share the securities of the five utility companies and to underwrite the raising of $2,500,000 cash by sale to the public of American's securities. *40/* Bond and Share itself participated in the syndi-

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38/ None of the securities had been owned by Bond and Share for more than 4 months, with one minor exception.

39/ This sum includes all items of expense (including investigation) incident to the purchase of the securities. It appears that the book value of these securities was approximately $1,600,000.

40/ It was estimated that $2,000,000 would be needed to acquire from Bond and Share the securities of the five companies and to reimburse the syndicate for expenses, and that the remaining $500,000 would be utilized in making a cash payment to American.

cate for a 60% interest ($1,500,000) and the investment banking house of William P. Bonbright & Company *41/* was granted the remaining 40% ($1,000,000) "with the understanding however, that Bonbright & Company shall give to employees of this company (Bond and Share) and to such other persons or banks as the officers of this company deem it desirable to interest in the project a reasonable proportion of their two-fifths allotment in the syndicate." In fact, Bonbright & Company was permitted to retain only $100,000 of the allotment, and the remaining $900,000 was divided among Mitchell and other officials of Bond and Share, General Electric, American Gas and Electrict and their friends and associates. *42/*

The "syndicate" transferred to the newly formed American through an intermediary the securities of the aforementioned five utilities plus $500,000 in cash. *43/* In return, American issued to the syndicate's intermediary its capital

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41/ For a discussion of the intimate relations between Bond and Share and Bonbright & Company, see *infra.*, n. 76.

42/ It is evident that the so-called "syndicate agreement" was in reality merely an arrangement for granting participations to officials of Bond and Share and affiliated interests in what seemed certain to be a profitable deal, and that no true underwriting was desired or obtained. Bond and Share itself retained 60% of the underwriting "risk", and 36% additional was absorbed by its officers and associates, leaving Bonbright with only 4% ($100,000 out of $2,500,000).

The largest participant in the Bonbright allotment was S. Z. Mitchell, who participated to the extent of $200,000, and the next largest was Charles A. Coffin, Chairman of the Board of General Electric, who was granted a $175,000 participation. Other officials of the companies and their associates were granted smaller participation.

43/ It was testified that in 1911 and 1912 Bond and Share "donated" to American additional sums totaling $80,223 "by reason of the very favorable arrangements made and carried out in the disposition of the preferred and common stock of the American Power & Light Company."

stock consisting of $2,500,000 par value preferred stock and $5,500,000 par value common stock, or a total of $8,000,000 of securities, all of which were handed over to Bond and Share as syndicate manager. The securities received by American were entered in the investment account at $7,500,000.

The $2,500,000 cash "underwritten" by the syndicate was procured through the marketing to the public by Bonbright & Company of the stock of American in blocks consisting of $1,000 par value of preferred and $800 par value common, for the aggregate sum of $1,000 per block. 25,000 such blocks were sold, leaving a balance of $3,500,000 par value of common, out of which $798,100 par value common was paid over to brokers and dealers as commissions. The syndicate thus remained with $2,701,900 par value of common as its profit. Of this amount, $1,621,100 par value of common was paid over to Bond and Share for its 60% participation, and $1,080,800 par value common was distributed among the other syndicate participants. *44/* Bond

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44/ Thus, Mitchell received approximately 2,161 shares ($216,100 par value); Coffin approximately 1,891 shares, and the others in proportion. The record indicates the following range for the market price of American:

	High	Low		High	Low		High	Low
1910	49	42	1920	66	39	1930	119⅜	36⅛
1911	76½	54	1921	67	39	1931	64⅞	11⅝
1912	74½	66	1922	129		1932	17¼	3
1913	73	58	1923	176	145	1933	19⅞	4
1914	73	55	1924*	69½	37½	1934	12¼	3
1915	69	59	1925	68½	48½	1935	9⅝	1½
1916	78	64	1926	79½	48¼	1936	14⅜	7½
1917	86	42	1927	73⅜	54	1937	16½	3
1918	55	38	1928	95	62¼	1938	7½	3¼
1919	72	54	1929	175¾	64¼	1939	7	3⅝
						1940	5¼	2
						1941	3¼	⅝

* Common stock split 10 for 1 in 1924. Thus, the 175¾ market price which the split stock reached in 1929 was the equivalent of $1,757 per share on the original basis.

and Share also received $50,000 cash from the members of the syndicate. *45/*

As a result of the financing of American, Bond and Share was reimbursed in full for all costs and expenses of every kind in connection with the securities transferred to American and the operations of the syndicate; in addition, it realized cash profits of approximately $120,000 *46/* on securities most of which had been owned only a few months, and it also held 16,211 shares of common stock of American at no cost. These shares constituted 29.47% of the total amount of common outstanding and 20.26% of total voting securities.

S. Z. Mitchell was made Chairman of the Board of Directors of American, of which eight out of eleven members were associated with Bond and Share or its affiliated companies. Mitchell was also made Chairman of the six-man executive committee, of which five members were affiliated with Bond and Share. All other employees and officers of American were officers or employees of Bond and Share, *47/* and American was assigned office space in the offices of Bond and Share.

It is thus apparent that Bond and Share had succeeded

45/ The syndicate agreement provided that "all members of the syndicate other than Electric Bond and Share Company are to pay it in cash 5 percent of their respective participations in the syndicate, said 5 percent payment to be made as an arbitrary allowance to Electric Bond and Share for its general expenses, risk, and profit."

46/ The $120,000 cash profit mentioned is after allowing for the $80,223 "donations" made by Bond and Share to American in 1911 and 1912, to which reference was previously made.

47/ The record indicates that up to 1917, salaries of some of these individuals was apportioned between Bond and Share and American. From 1917 to November 1935, however, all salaries were paid exclusively by Bond and Share, which in turn collected a service charge from American as is more fully described hereafter.

in realizing for itself complete working control of the new company and better than a 20% equity in it, after recovering every dollar of its investment in the securities transferred to American, plus a cash profit of approximately $120,000. Otherwise stated, Bond and Share had sold out an 80% interest in the aforementioned securities, recovering thereby its entire cost plus a substantial profit without in any way parting with control of such securities or of the properties which they represented. 48/ These facts obviously afford some illumination as to the meaning of Bond and Share's executive committee when it authorized the formation of American "to minimize the risks and commitments" of Bond and Share.

The obverse side of the coin must not be overlooked. American had issued $8,000,000 par value of its own securities to acquire $500,000 cash and securities which had recently cost Bond and Share less than $1,700,000. The cash paid over to Bond and Share for the securities and the profits realized by Bond and Share were furnished by the public which purchased American's securities. Nevertheless, control of the company rested firmly in Bond and Share's possession.

2. Growth of American and Relations with Bond and Share Until 1935

Several months after the organization of American, the latter caused the formation of a new company named Kansas Gas and Electric Company to which were transferred the properties of the Wichita and Pittsburg companies whose securities had previously been acquired from Bond and Share. American took from the Kansas Company bonds, preferred stock, and common stock in the aggre-

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48/ Moreover, as has been related, in the process of achieving this result, individuals affiliated with the company were enabled to garner handsome profits for their personal accounts.

gate principal amount and par value of $5,700,000. 49/ American sold to the public through Bonbright & Co. the bonds and preferred stock of Kansas for net proceeds of $2,381,257. American thus retained 30,000 shares of Kansas common (the entire amount outstanding) having a par value of $3,000,000, at a system cost of approximately $700,000, of which some $300,000 represented discounts suffered on the sale of the senior securities. Through ownership of the common, American was vested with absolute control of Kansas. 50/

In June 1910, a similar program was followed by Ameri-

49/ $1,600,000 5% mortgage bonds; $1,100,000 par value 7% preferred stock; $3,000,000 par value common stock. Total costs sustained by Bond and Share and American in connection with the assets transferred to Kansas aggregated approximately $3,100,000, or about $400,000 more than the aggregate principal amount of bonds and par value of preferred stock. The assets were, of course, placed on Kansas' books at a sum approximately equal to the securities issued by it, thus carrying into the plant and investment account of Kansas the system write-up of more than $2,500,000. The record also establishes that on the books of the predecessor companies the properties, immediately prior to their transfer to Kansas, stood at the aggregate sum of $2,424,378, as compared with the sum of $5,500,000 entered in the plant account of Kansas.

50/ The record established that the pattern used in capitalizing the Kansas Company became more or less the standard pattern of capitalization for operating companies throughout the Bond and Share system; namely, to write up the properties on the subsidiaries' books so that the holding company would be reimbursed for its entire investment through sale to the public of the bonds and preferred stocks, leaving it the entire common stock at no cost, or as close thereto as possible. While there were a few instances in which the plan did not fully succeed due to some untoward development, such cases were balanced by those in which the system attained a substantial *minus* cost for the operating company common. Apparent instances of the latter category are found in Pennsylvania Power & Light Company, a subsidiary of National, Nebraska Power Company, a subsidiary of American, and Louisiana Power & Light Company, Mississippi Power & Light Company, and Utah Power & Light Company, subsidiaries of Electric.

can with respect to Astoria Electric Company and other properties which it had acquired in the States of Washington and Oregon, the new subsidiary being named Pacific Power & Light Company. In the same year control was acquired by American of the Portland Gas Company, which was reorganized as Portland Gas & Coke Company. In 1912 American, through a complex pyramid of subholding companies devised by Bond and Share, acquired control of various properties in Texas which were ultimately centralized in three operating company subsidiaries of American: Texas Power & Light Company, Texas Electric Service Company, and Texas Public Utilities Corporation. In later years, Nebraska Power Company (1917), Minnesota Power & Light Company (1923), and Florida Power & Light Company (1925) were successively organized, and in addition, American acquired control of Central Arizona Light & Power Company (1925), Superior Water, Light & Power Company (1925), Northwestern Electric Company (1925), The Washington Water Power Company (1928), and the Montana Power Company (1928). *51/*

Through the issuance of its securities in exchanges to acquire control of the companies enumerated above and through sale of securities to the public for cash, the capitalization of American grew from the initial $8,000,000 in 1909 to $263,101,529 twenty years later. Much the greater part of this growth took place during the years 1923 to 1929,

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51/ In the earlier years, most of American's subsidiaries were organized by it as an amalgam of groups of smaller companies. Commencing in 1925, however, American began to purchase the control stocks of established utilities, paying increasingly high prices therefor. This was particularly true where American found it possible to acquire control of established operating companies through the issuance (in exchange) of its own preferred stocks. Two outstanding instances of the practice last mentioned are the acquisition by American in the year 1928 of the common stocks of The Washington Water Power Company and The Montana Power Company discussed *infra*.

and is attributable largely to the issuance of American's preferred stocks in exchange transactions. *52/* During the same twenty-year period, consolidated assets of American and its subsidiaries expanded from approximately $9,800,000, to $754,129,787.

To refer to American's having "acquired control" of subsidiaries or of having "issued securities" is, however, apt to be misleading. Despite the activity and vitality which are suggested by the record of expansion outlined above, American possessed no organizational identity of its own during most of its existence. Like National, whose history we have elsewhere described, *53/* organizationally American was scarcely more than a set of books in Bond and Share's office.

For some years after the formation of American, Bond and Share apparently contemplated that the subholding company might be permitted to build up a partial organization of its own, as had earlier been done in the case of American Gas and Electric Company. *54/* American paid

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52/ During the period 1923-1929 referred to above, American issued a total of $164,000,000 of its preferred stocks in exchange transactions, including the transactions referred to in n. 51, above.

53/ Holding Company Act Release No. 2962 (9 S.E.C. 978).

54/ As we pointed out in our Findings and Opinion in Matter of American Gas and Electric Company (Holding Company Act Release No. 2749) unlike the other four subholding companies of the Bond and Share system, American Gas and Electric has always had its own management staff. We pointed out that American Gas was the first holding company to be organized by Bond and Share, and that it was organized in 1906 shortly after the formation of Bond and Share, at a time when the latter had not developed its own service and management staff. The record of that proceeding indicates that American Gas and Electric Company was permitted to retain its own operating staff because the work of that staff was satisfactory and its personnel had won the confidence of Mitchell. We quoted the testimony of G. N. Tidd, President of American Gas and Electric, to the effect that "if you once got Mr. Mitchell's confidence, why he would let you run it".

all or a portion of the salaries of its officers, *55/* and had a staff which included a few bookkeepers, accountants, traveling auditors, and clerks. All engineering services were from the outset, however, purchased from Bond and Share.

In 1917 such employees as American had were entirely dispensed with, and the books and records of American were turned over to Bond and Share's employees. Thereafter, all officers of American were employees of Bond and Share paid exclusively by it, *56/* and all activities performed for, or in the name of, American were performed by employees of Bond and Share. This new arrangement was formalized by the execution of a service contract between American and Bond and Share which provided that Bond and Share would "take charge under your direction (*sic*) of the management of your Company, its present Holding Companies *57/* and the management and development of all Subsidiaries. . ."

Thus, from May 1917 until November 1935, American did not have a single employee of its own and was wholly under Bond and Share's dominion. Despite the fact that as American's capitalization increased Bond and Share's pro-

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55/ Mitchell, as Chairman of the Board was paid approximately $12,000 per year by American, while his compensation directly from Bond and Share ranged from $40,000 in the earlier years to $250,000 in 1928, the last year in which this arrangement remained in effect.

56/ Annual payments continued until 1929 to be made, however, in the name and for the account of American, to Mitchell, as Chairman of the Board, and to the Presidents of four of American's operating subsidiaries. Subsequent to 1929 this practice was discontinued.

57/ Reference is had to Southwestern Utilities Corporation and Southwestern Power & Light Company, two holding companies which Bond and Share had organized in 1912 in connection with its activities in Texas; control of these holding companies was transferred to American by Bond and Share. Both companies were later dissolved, their subsidiaries becoming direct subsidiaries of American.

portionate interest therein (small as it was to begin with) shrank sharply, Bond and Share continued throughout the years to enjoy as complete control of American and its subsidiaries as though it possessed an exclusive proprietary interest. *58/*

Some of the expedients resorted to by Bond and Share to safeguard its tenuous voting control position in American during the period of the latter company's expansion are interesting as examples of the holding company's practices and significant as bearing on the manner in which the present distribution of system voting power was created. From the inception of American in 1909 to the present time, the record indicates only one instance in which Bond and Share made any contribution to the capitalization of American. That instance related to the conversion by Bond and Share in 1923 and 1924 of $1,182,400 principal amount of convertible debentures of American into the company's common stock. The conversion was made at the equivalent of $100 per share for the common stock, at a time when the market price of the stock was considerably higher. *59/*

58/ To be sure, it has been argued that the control of American's affairs by Bond and Share's employees was theoretically subject to the overriding control of American's Board of Directors. However, the record indicates that up to November 1935, American's Board of Directors never included less than 8 persons affiliated with Bond and Share out of a total of 11, a minimum representation of more than 70%. The record further indicates that American having been incorporated under the laws of Maine, all stockholders' meetings were held at Augusta, Maine in the offices of Maine attorneys, who acted as statutory clerks for most of the Maine corporations in the Bond and Share system, and that consequently, stockholder attendance at such meetings was for the most part entirely lacking and at all times wholly negligible. The record indicates no instance of any sort of proxy contest or any challenge to the Bond and Share management control.

59/ In 1916 Bond and Share had participated with Bonbright and others in an underwriting of $6,984,300 principal amount of 6% debentures of American, which debentures were convertible

By reason of American's continued expansion through the issuance of its preferred stocks before the end of 1922 the number of shares of preferred stock outstanding, and consequently the aggregate voting power of the preferred stock as a class, came to exceed that of the common stock. In 1923 the practice was adopted of having American issue additional shares of common stock as dividends on its outstanding common stock. Stock dividends were issued every year from 1923 to 1930 in increasing amounts, *60/* thereby augmenting the voting power of the common stock relative to the preferred.

In October 1924, the common stock was changed from par value to non-par stock and split ten shares for one. Although the notice of the special meeting of stockholders at which this action was taken made no mention whatever of voting rights or voting power, the effect of this split was to reduce the voting power of the preferred stock as a class from 53% to 10.1% and to increase that of the common

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into common stock of American at the equivalent of $100 per share. Bond and Share acquired $1,182,400 principal amount of such debentures at a cost of $1,086,569, without taking into account fees and commission received. The market price of American common during the period of conversion ranged from $145 per share low in 1923 to $695 High in 1924 (giving effect to 10 for 1 split of common in 1924).

60/ The stock dividends were in addition to substantial cash dividends which were regularly paid on the common stock by American, as shown in the following table:

Year	Cash	Stock	Year	Cash	Stock
1909-1912	—	—	1923	$1,143,933	$ 483,156
1913	$225,256	—	1924	1,438,548	588,648
1914	302,476	—	1925	1,585,656	637,641
1915	328,216	—	1926	1,664,352	668,526
1916	328,216	—	1927	1,792,060	726,248
1917	336,827	—	1928	1,930,090	3,338,832
1918	348,216	—	1929	2,225,327	3,922,954
1919	348,216	—	1930	2,551,048	4,486,154
1920	348,216	—	1931	2,916,522	1,454,584
1921	348,216	—	1932	1,501,961	—
1922	632,423	—	1933-1941	—	—

stock from 47% to 89.9%. Upon Bond and Share its effect was to increase the voting power of the block of common owned by Bond and Share from the 12.6% to which it had declined, *61/* to 24.1%. *62/*

61/ At the inception of American, the 16,211 shares of common acquired by Bond and Share had constituted 20.3% of the total capitalization of American, and carried a like percentage of voting power. As American's capitalization increased, however, the ratio of Bond and Share's securities had declined both as respects capitalization and voting power. By the end of 1922, Bond and Share's holdings of common equaled only 10.1% of capitalization and 11.3% of voting power.

62/ As earlier stated, it was contended by respondents that the fairness of voting power distribution in the system can not be evaluated except in light of the circumstances and manner of creation of such distribution. In this connection we note the record indicates that similar steps were taken from time to time throughout the Bond and Share system when the voting control of the securities owned by the holding company was threatened. For example, in our *National* Opinion (Holding Company Act Release No. 2962), we described the effect of the split-up of the Houston Lighting & Power Company and Pennsylvania Power & Light Company common stock on the relative voting strength of the publicly-held preferred stock and the common stock owned by National. Other instances of like character occurred in other companies in the American and Electric systems, as shown by the following table:

Date	Company	Percent of voting power prior to common stock split		Percent of voting power after common stock split	
		Preferred	Common	Preferred	Common
1923	Dallas Power & Light Company (El)*	42.9	57.1	16.7	83.3
1926	Nebraska Power Company (A)	53.3	46.7	5.4	94.6
1927	Utah Power & Light Company (El)	42.4	57.6	6.8	93.2
1928	Kansas Gas and Electric Co. (A)	68.9	31.1	18.1	81.9
1928	Portland Gas & Coke Company (A)	64.5	35.5	14.2	85.8
1930	Pacific Power & Light Company (A)	50.1	49.9	5.5	94.5

* Symbol (El) designates Electric as holding company parent, sym-

At the beginning of 1928, Bond and Share held 458,462 shares of American common stock out of a total of 1,871,091 shares outstanding, or 24.5%. These shares had cost Bond and Share a total of $1,376,365, or approximately $3 per share. *63/* At that date the capitalization of American was in excess of $97,150,000, and total consolidated assets of American and subsidiaries aggregated $537,108,955.

During 1928 a further sharp expansion took place in the capitalization of American incident to the acquisition of control of The Montana Power Company and The Washington Water Power Company. To achieve control of these two prominent utilities, American issued $153,333,620 of its own preferred stock in exchange for their outstanding common stocks, although the book value of the purchased securities (including surplus) aggregated less than $84,000,000. Moreover, in the case of The Montana Power Company, the record indicates that the common

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bol (A) designates American as holding company parent. In each of above cases the holding company owned more than a majority of the common stock, the preferred stock being owned by the public.

It must be borne in mind, as we also pointed out in our *National* Opinion, that despite the significance of transactions such as those enumerated above, in most cases the most important factor in creating the unfair distribution of voting power in the system was the prolific use of the "write-up" technique. By writing up the property accounts of the operating companies, book values were stated against which capital stock was issued to the holding companies, carrying voting control of the respective companies. (See n. 50 *supra* and discussion below.)

63/ This figure is comprised of the $1,086,570 applicable to the debentures converted into common stock in 1923 and 1924; $83,992 applicable to securities exchanged for American common in various transactions; and $205,804 applicable to market purchases prior to 1928. A table showing the cost and manner of acquisition by Bond and Share of American's common stock before and after 1928 is set forth as Appendix G of this Findings and Opinion.

stock of $49,633,300 was substantially if not entirely balanced by inflation. *64/*

Beginning in 1928 Bond and Share made purchases of substantial amounts of American common on the open market for cash. These purchases were increased after the market crash in 1929; in all, a total of 105,700 shares were purchased for the aggregate amount of $8,025,136, or an average price of about $76 per share. *65/* One effect of these purchases was to bolster Bond and Share's voting control position in America, which had been greatly weakened by the issuance of the huge amounts of preferred stock in The Washington Water Power and Montana Power deals.

Since the open market purchases by Bond and Share contributed no capital whatever to American's treasury, it is evident that in appraising the role of Bond and Share as a capital-supplying medium for American, significance can be accorded only to the approximately $1,000,000 paid for the debentures of American later converted into common stock. This sum scarcely looms large in relation to American's total capitalization of $260,428,677 (December 31, 1941).

64/ It is evident that these two improvident purchases, motivated apparently by an unreckoning determination on the part of Bond and Share to increase the contours of its system, have contributed greatly to American's present financial difficulties. Dividend requirements on American's preferred stock issued in these transactions equals $8,221,573 per year. This sum exceeded by $1,200,000 American's total net income after bond interest and other charges in 1941, and was equal to more than 260% of total income received by American from the aforementioned two companies in 1941.

65/ In addition, Bond and Share acquired in October 1929, through its merger with Electric Investors, Inc., 68,704 shares additional of American common, most of which had been acquired by market purchases or as stock dividends. (See Appendix G.)

Commencing in 1932 payment of dividends on American's preferred stocks, 97% of which are owned by the public, was curtailed and arrearages began to accumulate. Although such arrearages of preferred dividends have mounted steadily every year and are still mounting, Bond and Share has continued in full control of American by virtue of the absence from the company's charter and by-laws of any provision for increased voting power or other protective features for the preferred stocks when dividends are in arrears. *66/*

C. *Electric*

1. Organization

Electric was organized by Bond and Share in March 1925; like American, it was chartered under the laws of the State of Maine.

In the 16 year interval between the organization of American and Electric, Bond and Share had made diligent use of the subholding company device in the American pattern. In 1912 it had organized the Utah Securities Corporation, a holding company which acquired various properties principally in Utah and Colorado and transferred them to a newly formed operating company called Utah Power & Light Company. In the same year, it organized Southwestern Utilities Corporation and Southwestern Power & Light Company, holding companies through which various Texas properties were transmitted to Texas Power & Light

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66/ Such provisions have been uniformly omitted from the charters and by-laws of all companies of the Bond and Share system. The charters are drawn so as to give the greatest measure of latitude and protection to the controlling interests; for example, express waiver is uniformly made of stockholders' preemptive rights and the directors are given the power to authorize the issuance of additional stock and perpetual option warrants to such persons and at such prices as they deem fit.

Company, Texas Electric Service Company, and Texas Public Utilities Corporation. In 1914 Bond and Share organized National Securities Corporation (reorganized in 1919 as Power Securities Corporation) which acquired control of properties transferred to Idaho Power Company; and in 1917, it organized Lehigh Power Securities Corporation through which Pennsylvania Power & Light Company was formed. 67/

Each of the aforementioned holding companies was organized and financed in substantially the manner previously described for American; namely: assets were placed on the books of the subholding companies at sums considerably in excess of their cost to Bond and Share and its associates in the particular venture (the "syndicate"); the subholding company would then issue to Bond and Share and associates senior securities (either notes or preferred stock) in a face amount more than sufficient to cover the cost of the assets turned over to the subholding company, and would also issue substantial amounts of common stock (having a majority of total voting power) against the company's inflated investment account. Bond and Share and associates would sell to the public the senior securities plus a bonus of common stock, for the approximate face amount of the senior security, thereby recouping all cash outlays; the promoters would then be left with substantial blocks of common stock at no cash cost (sometimes indeed with a cash profit) which they would divide among them-

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67/ In addition to the subholding companies name above, in 1922, Bond and Share organized the original National, in the manner and for the purposes previously described by us in our *National* Findings and Opinion (Holding Company Act Release No. 2962), and in 1923, it organized American & Foreign Power Company, Inc., as a holding company to consolidate its investments in foreign lands.

selves, the lion's share always going to Bond and Share as "manager" and promoter of the venture. *68/* Thus, Bond and Share would emerge with a substantial block of voting stock at no cost, and complete control of the new corporation (and its subsidiaries) assured through the concentrated voting strength of its common stock holdings and the execution of Bond and Share's standard "service contract" whereby Bond and Share employees "officered" the company, formed more than a majority of its board, and "took over the management of the company and its subsidiaries". *69/*

As a corollary to this method of financing the subholding companies, there also invariably resulted a serious inflation in the accounts of the operating company subsidiaries which were set up. Since the assets received at organization by the subholding companies were generally entered in their book accounts at inflated figures, they were transferred by the subholding companies to the operating companies at sums embodying at least an equivalent amount

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68/ In addition to the amounts of stock which Bond and Share would receive as a syndicate participant in each of the instances named above, Bond and Share also received substantial amounts of bonus stock "for risks and services." In the Southwestern Utilities venture, it received 5,000 shares ($500,000 par value) for "risks and services"; in the Utah Securities venture, it received 25,000 shares ($2,500,000 par value) of which it distributed a portion to associates; in the National Securities venture, it received 20,000 shares ($2,000,000 par value); and in the Lehigh Power Securities Corporation venture, it obtained 40,000 shares for "risks and services."

69/ In the case of Utah Securities Corporation and Lehigh Power Securities Corporation, the syndicate agreement also provided for the deposit of all common stock in a voting trust, "the duration of such voting trust and the provisions of such voting trust agreement to be determined by Electric Bond and Share". A voting trust agreement covering a five-year period was also employed in connection with Southwestern Utilities Corporation.

of inflation and sometimes a greatly increased amount. *70/* In this way there was passed over to the consumer the burden of supporting the watered capitalization of both operating company and the subholding company, while the public investors in the securities of the operating company and the subholding company who may have purchased their securities in reliance on balance sheets containing serious inflation were not informed thereof. *71/*

70/ Thus, in connection with the formation of Texas Power & Light Company in 1912 as a subsidiary of Southwestern Utilities Corporation formed at the same time, securities which had cost Bond and Share a few months earlier $2,300,000 (including all expenses and interest on the sums expended) were transferred to Texas Power & Light Company for $10,550,000 par value of securities of that company, thus creating an initial inflation of more than $8,250,000 in that company's property account. Subsequent inter-system transactions resulted in further inflations of Texas' plant account in an amount which the record indicates presently exceeds $19,000,000. Similarly, in connection with the organization of Utah Power & Light Company, securities which had been assembled by Bond and Share at a cash cost of $14,700,000, and turned over to Utah Securities Corporation, were transferred to Utah Power & Light Company from 1912 to 1915 for securities of the latter and other considerations exceeding $47,000,000, thus creating an inflation of approximately $32,300,000 in the plant account of the Utah Power & Light Company. The senior securities of the operating company were then sold by the subholding company to the public for cash, leaving the subholding company with the entire issue of common stock ($30,000,000 par value) at no cost. See also our notice and order for hearing in *Pennsylvania Power & Light Company et al.*, Holding Company Act Release No. 2906, containing allegations to the effect that Lehigh Power Securities Corporation inflated the plant account of Pennsylvania Power & Light Company in a sum apparently exceeding greatly the entire common stock and surplus accounts of that company.

71/ In addition to serving as instrumentalities through which Bond and Share was enabled to obtain control of vast assets with little or no investment, the subholding companies also played a very important role in the *mechanics* of inflating the plant accounts of the operating companies. As a result of the intricate three-cornered transaction between Bond and Share, the subholding companies and the operating companies, it was frequently rendered impossible for regulatory bodies, let alone investors, to

The organization of Electric in 1925 involved the largest subholding company financing which had been undertaken by Bond and Share up to that time and constituted in as and other respects Bond and Share's most important subholding company venture. *72/*

In substance, the plan of organization contemplated that

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determine the extent or the manner of inflation on the books of the operating companies. This problem was rendered particularly acute by the circumstance that the records of the subholding companies were usually located outside the jurisdiction of local regulatory bodies. Even as to federal regulatory bodies, investigation was frequently hampered by the "unavailability" of key records of the subholding companies, as is established by the experience of the Federal Trade Commission and our own experience in the present proceeding as disclosed by the present record. Exhibits in evidence in the present proceeding establish that Bond and Share consciously employed the subholding companies to "scramble," and render obscure to regulatory bodies, transactions affecting the accounts of operating companies (see Holding Company Act Release No. 2940, issued in the present proceeding, for further discussion of this point).

Also not to be lost sight of is the fact that the existence of the subholding companies facilitated the realization of substantial inter-company profits for the holding companies by reason of the numerous transactions between them and the operating companies.

72/ Financing of Electric involved the sale of $40,000,000 of first preferred stock and $12,000,000 of second preferred stock, plus the issuance of $39,245,100 stated value of common stock, all as described hereafter. Initial financing of the other subholding companies is shown below:

	Securities Initially Sold for Cash	Total Initial Capitalization
American Power & Ligh Company	$2,500,000	$8,000,000
Southwestern Utilities Corporation	10,000,000	20,600,000
Utah Securities Corporation	25,000,000*	26,001,000*
National Securities Corporation (Power Securities Corporation)	3,039,000	9,739,000
Lehigh Power Securities Corporation	18,405,900	20,405,900
National Power & Light Company	2,104,348	21,082,260

* Amount of notes subscribed, of which only a portion of these were issued.

Electric would acquire at the outset two "baskets" of assets: (1) the assets of Utah Securities Corporation, a subholding company controlled by Bond and Share whose principal assets consisted of the entire outstanding common stock, and some shares of the preferred and second preferred stocks, of Utah Power & Light Company; (2) various securities owned by Bond and Share constituting control blocks in the following companies: Power Securities Corporation, a subholding company which controlled Idaho Power Company; Dallas Power & Light Company; Dallas Railway Company; Texas Interurban Railway Company; and New Orleans Public Service Inc.

The assets of Utah Securities Corporation were acquired through the assumption by Electric of all the liabilities of that company and the issuance by Electric of 4 shares of its common stock, plus $10 in cash for each share of common stock of Utah Securities Corporation. As there were 307,751 shares of Utah Common outstanding, Electric issued 1,231,004 shares of its common stock having a stated value of $30,775,100 ($25 per share) and $3,077,510 in cash. The securities owned by Utah Securities Corporation had been carried in the investment account of that company immediately prior to the foregoing transaction at $3,854,263; *72a/* after giving effect to adjustments to reflect other assets received and liabilities assumed, it appears that Electric paid $33,373,343 for these securities and entered them in its investment account at such amount, or $29,519,080 in excess of the ledger value on the books of Utah.

In effecting the acquisition of the second basket of securities from Bond and Share, Electric paid Bond and

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72a/ From evidence in the record, it appears that the system cost of these securities may have been close to nothing.

Share through an intermediary *73/* $25,448,512 in cash, released a claim against Bond and Share for $440,564, *74/* and issued to Bond and Share 310,000 shares of Electric's common stock having a stated value of $7,750,000, and 800,000 perpetual option warrants to purchase additional Electric common at $25 per share. Thus, Electric paid the equivalent of $33,639,076 for this basket of securities, (according nothing to the 800,000 option warrants) and entered them in its investment account at this amount. Since the cash cost to Bond and Share had been approximately $19,390,385, *75/* the amount so paid and entered

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73/ It apparently was the practice of Bond and Share and the subholding companies, whenever they desired to engage in a transaction with an affiliate, to employ a dummy, referred to as an "intermediary," who would enter into agreements with both principals. In connection with the formation of Electric, an intermediary named Lucien W. de Buys was employed. De Buys also served as intermediary in connection with the formation by American of its subsidiaries, Minnesota Power & Light Company and Florida Power & Light Company. Witnesses for the respondents testified that they were ignorant as to the identity of de Buys. Subsequently it was ascertained from a former vice-president of Bond and Share that de Buys was an impecunious art dealer befriended by this vice-president and accorded the privilege of gaining small sums by signing the intermediary agreements and acting as the intermediary in these transactions. Apparently, one of the principal purposes of the intermediaries was to render obscure to outside eyes transactions in which they served.

74/ It was discovered that in the process of collecting service fees from its subsidiaries, Bond and Share collected the same fee from both Utah Securities Corporation and Utah Power & Light Company, and it was therefore arranged that Bond and Share should repay Utah Securities Corporation the $440,564 sum mentioned above.

75/ This cost was as follows:

Securities of the Dallas Companies	$6,214,091
Securities of Powers Securities Corp.	654,682
Common Stock New Orleans Public Service Inc.	12,521,612
Total	$19,390,385

by Electric was $14,248,691 in excess of the cost to Bond and Share. These securities had for the most part been owned by Bond and Share less than 2 years. *75a/*

The plan contemplated that the money needed by Electric to carry out the acquisition of the aforementioned securities would be obtained through the issuance and sale of 400,000 shares of $7 cumulative preferred stock and 120,000 shares of cumulative second preferred stock. A syndicate was organized by Bonbright & Co., which marketed the 400,000 shares of $7 preferred stock to the public at $100 per share, each such share carrying a bonus of 1/2 share of common stock furnished by Bond and Share. For this service, Electric paid Bonbright $2,400,000 or $6 per share of preferred stock marketed. *76/*

The foregoing securities were carried on the books of Bond and Share at a ledger value of $21,185,343, due principally to changing to investment account of $1,396,577 on account of certain stock dividends received from New Orleans Public Service Inc.

75a/ Although Bond and Share had a small investment in the Dallas Companies from 1917 on, the greater portion thereof was received in 1923 by acquisition from Bond and Share's parent, General Electric Company. Bond and Share's investment in New Orleans Public Service Inc. was initially acquired in 1923 at a cost of approximately $4,000,000 through a reorganization. Since the New Orleans Company had a top-heavy debt structure which made impossible the sale of additional senior securities, in 1924 Bond and Share purchased additional common stock in the amount of $7,500,000, after obtaining consent from the New Orleans City Council for an increase in the common stock dividend rate from 8% to 9%.

It is thus evident that almost all of Bond and Share's investment in the basket of securities transferred to Electric had been incurred within the preceding two years.

76/ The fee paid to Bonbright was higher than appears on the surface, by reason of the fact that Bonbright's contract provided for obtaining subscribers on the basis of a 40% down-payment, and the balance payable in installments on call over a minimum period of 30 months commencing January 1, 1926. Payment of the $2,400,000 fee was made to Bonbright upon

The 120,000 shares of $7 cumulative second preferred stock were subscribed to by Bond and Share at $94 per share. Bond and Share immediately resold 110,520 shares in blocks of 1 share of second preferred, 1/2 share of common, and 4 option warrants for $94 per block, 77/ to a selected group consisting of officers, directors, and employees of Bond and Share "and to other persons, firms and corporations that might prove helpful to the Electric Bond and Share Company and the new company".

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delivery of the subscriptions accompanied by the 40% down-payment, and Bonbright undertook no liability with respect to subscriptions on which future payment was not made. Thus, Bonbright earned its $2,400,000 fee on delivery of the $16,000,000 down-payment; on such basis the fee equaled 15% of the gross proceeds received by Electric. It was claimed, however, that in fact most of the subscription were actually paid up in full. As had previously been indicated the relations between Bonbright & Co. and Bond and Share were very close throughout the entire period of Bond and Share's existence. Bonbright & Co. was associated with Bond and Share in most of the latter's important ventures, commencing with the organization of American Gas and Electric Company (1906), American (1909) and continuing through the years. In 1913 Bond and Share purchased stock in Bonbright & Co. which it retained until 1922. At the same time S. Z. Mitchell personally purchased an interest in the Bonbright Company, and became a member of its board of directors. Similarly, members of the Bonbright firm were on the boards of directors of a number of Bond and Share Companies.

In 1923 Bond and Share participated with the Bonbright and Morgan interests in the formation of American Super Power Corporation, and later was associated with those interests in the formation of the Commonwealth & Southern Corporation and The United Corporation.

77/ The option warrants provided for the purchase without time limitation of common stock at $25 per share, or the surrender of four warrants and one share of second preferred stock for four shares of common. This convertible second preferred stock was sold only to persons on the Bond and Share "Select" list. In the same year in which the stock was issued, Electric common sold at a high of $40 1/8 per share; in succeeding years it sold at increasingly high prices, finally reaching a high of $103½ per share in 1930.

The outcome for Bond and Share of the organization and financing of Electric was successful beyond all previous similar ventures. For its holdings of Utah Securities Corporation common stock (59,193 shares) representing a cost to Bond and Share of $618,123, it had received $561,930 in cash and 224,772 shares of Electric common. *78/* For

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Bond and Share also obtained from Bonbright at $94 net a block of 50,000 shares of the $7 preferred stock which Bond and Share thereupon made available to "insiders."

The use of a similar "Select" list is found in connection with each of the subholding companies formed by Bond and Share, and it is noteworthy that principal officers of the company always headed each such list with the largest allotments. Generous treatment of "insiders" also took the form of payment by Bond and Share of increasingly large bonuses to Mitchell and other officers. In 1929 there was adopted a special stock purchase plan for officers and "key men" (the Chairman of the board and the President heading the list) whereby those designated were permitted to subscribe to substantial amounts of Bond and Share common at $40 per share to be paid for over a period of seven years. In that same year, the market price of the stock rose to a high of $189 per share. In 1931, however, when the market price of the stock dropped to $15 per share, the directors voted to cancel the program and refund all sums paid by the participants.

78/ As was true in each of its subholding company situations, Bond and Share owned only a minority stock interest in Utah Securities Corporation, equal to approximately 18% of the total capital stock outstanding. However, the familiar pattern of complete Bond and Share dominion is found viz: a "Service contract" pursuant to which all officers of Utah were employees of Bond and Share, and Utah's books and records were kept in Bond and Share's offices by Bond and Share's employees; almost the entire board of directors and the entire executive committee were composed of Bond and Share officers, directors or associates. In addition, a voting trust for the common stock of Utah had been established at the time of the company's organization in 1912, with three of the five trustees affiliated with Bond and Share.

The record in the present proceeding further indicates that persons and companies affiliated with Bond and Share owned substantial amounts of Utah Securities common at the time of the exchange for Electric; e.g. Mitchell, 11,400 shares, Groesbeck, 2,600 shares, Breed 695 shares, Electric Investors (an affiliated investment company later consolidated with Bond and

its basket of other securities transferred to Electric having a cash cost of $19,390,385 it received the equivalent of $25,889,076 in cash plus 50,000 shares of common stock and 353,408 option warrants to buy additional common at $25 per share. Through the various transactions in connection with Electric's organization, Bond and Share acquired an additional 23,569 shares of common at a cost of $36,216 or $1.53 per share. In total, Bond and Share emerged with 298,341 shares of common and 353,408 option warrants at no cost, *79/* 9,480 shares of second preferred stock at a cost of $854,904, and a net cash profit of approximately $6,500,000 on the securities surrendered to Electric, most of which had been held less than two years.

Not only did Bond and Share acquire its entire initial common stock investment in Electric at a cost of approximately minus $6,500,000, but in customary fashion it also emerged with complete control of the new company. The securities acquired by Bond and Share carried approximately 16% of the total voting power, and substantial additional blocks were in friendly hands. *80/* Moreover, as a condition of the sale to Electric of the basket of securi-

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Share) 7,800 shares, Electric Securities Corporation 927 shares, E. K. Hall 1,000 shares, E. W. Hill 747 shares, Alfred L. Loomis and Langden K. Thorne (Bonbright & Co.) 1,400 shares.

79/ The market value of this block of common stock and options at the high in each of the years 1925 to 1930 inclusive, was as follows:

	Common	Options	Total
1925	$11,970,933		
1926	10,292,764	$ 2,827,264	$13,120,028
1927	9,658,790	5,301,120	14,959,910
1928	14,730,587	10,911,472	25,642,059
1929	25,843,789	21,822,944	47,666,733
1930	30,878,293	27,610,000	58,488,293

80/ At the end of 1928, various interests affiliated with Bond and Share owned at least 150,000 shares equal to approximately 6% additional of the total voting power.

ties previously described, Bond and Share required that Electric enter into the standard Bond and Share "service contract" by virtue of which Electric was officered exclusively by Bond and Share employees, its books and records kept in Bond and Share's offices, and consequently with Bond and Share in exclusive dominion of Electric and its affairs, "subject at all times to the control of the board of directors". Said board of directors, however, consisted almost entirely of officers or directors of Bond and Share and affiliated companies, with S. Z. Mitchell as its chairman. *81/*

81/ Not only did the service agreement provide that Electric would be serviced by Bond and Share, but it also provided that if any of Electric's subsidiaries did not enter into service agreements with Bond and Share, Electric would itself pay Bond and Share in any event for "servicing" such subsidiaries. Apparently this clause was drawn with reference to the fact that the local authorities in Dallas and New Orleans had consistently refused to approve the payment by Bond and Share's subsidiaries of these "service" fees. As a result, Electric was obliged to pay Bond and Share the fees for these companies until 1935. In that year, it seems the Dallas and New Orleans authorities withdrew their opposition, apparently in reliance on the newly enacted Public Utility Holding Company Act with its safeguards as to service arrangements.

While the service contracts which Bond and Share demanded (and received) of all subholding companies and their subsidiaries have been referred to herein primarily as control media for Bond and Share, it must not be overlooked that they also constituted a highly important and lucrative source of revenue for Bond and Share. In fact, the record indicates that for the years 1925 to 1935 inclusive, income from service operations constituted the largest single source of income for Bond and Share. It also appears that profits on such operations in certain years exceeded 250% of cost.

The fees paid by the operating companies to Bond and Share, including the aforementioned profits, were either charged by the operating companies as operating expenses or were capitalized in plant accounts.

It is interesting to note that at the end of 1928, when revisions in the service contracts were under consideration among Bond and Share executives, one of the attorneys who appeared of counsel for Bond and Share in the present proceeding but who

It is not without interest to consider against the background of the foregoing facts, the statement made by S. Z. Mitchell to the board of directors of Bond and Share in

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was at that time an officer of a subsidiary urged in a letter to Bond and Share the use of more guarded language in the service contracts. He said:

> "This paragraph expressly contemplates that the holding company, which of course has control of the operating subsidiary, shall procure that subsidiary to make a service contract with the Electric Bond and Share Company. This destroys the theoretical freedom of action of the local operating company, which it seems to me is an important point in the investigation of these contracts by local public service commissions. We have always stressed the point in discussion of these matters before local commissions that these contracts are voluntarily entered into after full discussion by the local boards of directors as being for the best interests of the local companies; that they are terminable at will by those local companies, and that they constitute an asset of value to those companies for which the compensation is justified, and without the payment of which compensation by the local companies the services of the Electric Bond and Share Company could not be obtained.
>
> "This paragraph of the proposed contract while it does not so state leaves it clearly open to inference that the holding company will see to it that the operating company makes such a contract. The holding company will obviously do so in its own interest because otherwise—while in form it is optional—it would doubtless be required to itself assume the payments to be made by the operating company in order to secure those services for that company. . . .
>
> "I assume that this holding company contract will become virtually public property, either through the Federal Trade Commission investigation, or otherwise, and may in that way come to the potential notice at least of all local public utility commissions. It is for this reason that I think it quite important that the holding company contract should be divorced as completely as possible from the operating company contract so as to relate solely to the services rendered to the holding company, which do not involve the operating company in any way, and thus not become the subject of inquiry, explanation, or justification, in local investigation."

recommending the plan which was followed for the formation and financing of Electric, as it appears on the minutes of the board:

> "The Chairman referred to the holdings of this Corporation in Power Securities Corporation, New Orleans Public Service Inc., Dallas Power & Light Company, Dallas Railway Company and Texas Interurban Railway, stating that they had been acquired for the most part in connection with reorganizations of operating utilities with the view of eventually vesting them in some holding or investment company somewhat in the manner followed in the case of American Power & Light Company and similar companies. He pointed out that Electric Bond and Share Company, with its limited capital, could not expect to keep as a permanent investment holdings of this character and magnitude and as such holder provide the substantial amount of additional money needed from time to time to expand such operating properties to meet the demands for increased service . . ."

In point of fact, Electric subsequent to the acquisition of control of these operating companies from Bond and Share made no additional investment whatever in any of such companies, with one insignificant exception. *82/* Moreover, if additional money for investment in these properties had actually been needed, the record indicates that Bond and Share not only had large cash funds on hand, but had the

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82/ In 1927 and 1928 Electric purchased from Dallas Power & Light Company 125,125 shares of common stock for $2,502,500. The record indicates that the earnings of the Dallas Company were such that it could readily have sold these shares publicly for a price much higher than that paid by Electric. Moreover, it appears the purchase was made for strategic reasons rather than the needs of Dallas, since the Dallas Company proceeded to lend back the greater part of this money to Electric.

ability to sell, and did sell, hundreds of millions of dollars of its own securities. *83/*

Euphemisms concerning "increased service" for the customers of the operating companies could not, of course, obscure for the directors of Bond and Share Mitchell's meaning when he recommended formation of a new holding company "in the manner followed in the case of American Power & Light Company and similar companies." In essence that necessarily meant formation of a subholding company to serve as an instrumentality through which Bond and Share would recoup its investment in certain securities while retaining dominion over them through control of the new company. When, as in the case of Electric, a large cash profit was also realized, it served to brighten further an already bright picture.

Bond and Share's success in the Electric venture was, of course, not achieved without deleterious consequences to the other participants, and to Electric itself. The new company started off with an investment account stated on its books at $69,900,000, of which $46,655,352 represented writeup over cash cost to affiliated predecessors. *84/* Thus the investment account of Electric was initially inflated to approximately 300% of the aggregate cost to the affiliated

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83/ Between 1925 and 1931, Bond and Share realized $288,580,000 cash from the sale of its own securities. The greater portion of these proceeds was invested by Bond and Share in various foreign ventures revolving about American & Foreign Power Company. Substantial sums were also expended in market purchases of the securities of its subholding companies at and subsequent to the market break of 1929.

84/ We have previously pointed out that the securities owned by Utah Securities Corporation had been on the books of that company at $3,854,263 and the basket of securities acquired from Bond and Share had cost Bond and Share $19,390,385. The total of the foregoing was $23,244,648, as compared with Electric's initial investment account of $69,900,000. As has been noted, even the $3,854,000 on Utah Securities' books may represent "write-up."

predecessors. Per contra, this inflation was represented in the capital account of Electric by an equivalent amount, equal to the sum of the entire stated value of common stock and approximately 1/2 of the second preferred stock. In point of fact, Electric's initial capitalization was approximately 70% "watered." *85/* As a corollary, public investors who paid $40,000,000 for a "cumulative preferred stock" received a security behind which there was no true cushion.

2. Activities of Electric and Relations with Bond and Share Until 1935

Subsequent to the organization of Electric, Bond and Share caused it to undertake two major ventures: (1) acquisition of the Couch properties as the nucleus for the formation of Arkansas Power & Light Company, Louisiana Power & Light Company and Mississippi Power & Light Company; (2) acquisition of natural gas properties in Louisiana and later in Texas, which ultimately led to the formation of United Gas Corporation.

For some time prior to the formation of Electric in March 1925, Mitchell had been conducting negotiations with Harvey C. Couch, who was President of a holding company called The Southern Power and Light Company which owned the control stocks of a number of utility properties

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85/ It was contemplated that Electric's initial capitalization would embrace issuance of common stock having a stated value of $39,245,100, second preferred stock with a stated value of $11,280,000, and first preferred stock with a stated value of $40,000,000, or a total of $90,525,100, against which the inflation was $46,655,352, or 52%. However, as was previously pointed out, Electric actually received only $16,000,000 as a down payment on the first preferred at the outset, the $24,000,000 balance being paid over a period of 2½ years. Electric's balance sheet did not include this $24,000,000 as part of the initial capitalization. Excluding this $24,000,000 would make Electric's initial capitalization only $66,525,100 in respect of which the inflation would approximate 70%.

in Arkansas, Louisiana and Mississippi. *86/* Approximately one month after the organization of Electric, a contract was entered into whereby Electric acquired the assets of The Southern Power and Light Company in exchange for the issuance to the former company of 96,181 shares of the $7 preferred stock and 48,090 shares of the common stock of Electric, having an aggregate stated value on the company's books of $10,820,350. It appears that the securities and the assets acquired from Southern were carried on that company's books at $8,341,548, and that this sum was considerably in excess of the underlying book values of the portfolio securities after elimination of write-ups. *87/*.

Arrangements were made to have Electric acquire from its sister holding company, National, the common stock of Arkansas Central Power Company and other assets in the City of Little Rock, Arkansas, paying National a substantial profit. Sundry other minor properties were purchased by Bond and Share agents in the three states, and thereafter three operating companies named respectively, Arkansas Power & Light Company, Louisiana Power & Light Company, and Mississippi Power & Light Company were organized, to which were transferred the properties located

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86/ The record indicates that associated with Couch in The Southern Power and Light Company were Albert W. Wiggin of the Chase National Bank of New York and John C. Nickerson of the investment banking firm bearing the same name.

87/ For example, allocating the purchase price on the basis of underlying book values, it appears that Electric paid $4,828,000 for the common stock of Arkansas Light & Power Company, the largest company in the group. The record indicates that the book value of the stock after elimination of write-ups was only $1,451,000.

Earnings on the aforementioned stock during the 12 months ended February 28, 1925 were $175,206 after wholly insufficient depreciation charges. Electric thus acquired the stock at a cost equal to 28 times earnings. If depreciation had been charged at the rate of 2% of fixed capital, no earnings at all would have been available for the common stock.

in each of the states. Couch and certain of his former associates in The Southern Power and Light Company were made the principal officers of the three companies.

In payment for the properties conveyed to them by Electric, the three operating companies issued to Electric their own securities having a total ledger value of $70,499,850, of which $34,500,000 was in the form of bonds and $16,000,000 in first and second preferred stocks. Although Electric had made substantial outlays in calling the bonds of the constituent companies and for other interim purposes, the cost of these properties to the three companies was in excess of 135% of Electric's total cost and disbursements of all kinds. *88/* The Plant accounts of the three companies were stated at a sum equal to approximately 144% of the combined plant accounts on the books of predecessor companies and 175% of predecessor plant accounts after adjustment for removal of identifiable inflationary items on predecessors' books. *89/*

Electric sold to the public (through Bond and Share and underwriters) the bonds and first preferred stocks received from the three operating companies, and thereby recovered all its cash outlays and disbursements, leaving it with substantially only its initial investment cost represented by its securities issued to Couch and associates in The Southern Power and Light Company. Electric continued to retain, however, all the common stock and

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88/ Included in the alleged "costs" of Electric were sums advanced by Electric to the predecessor companies for the purpose of paying dividends to Electric, together with interest on such advances.

89/ In dollars this increase in the plant accounts of the three companies aggregated approximately $24,500,000 before removal of inflationary items on predecessors' books, and $34,700,000 after removal of such inflationary items. This excess of $34,700,000 constituted, of course, part of the "property" on which it was expected that the companies would receive a return from ratepayers.

second preferred stock of the three companies having a stated value of $26,500,000 and representing in each case more than 90% of the total voting power. *90/* At the very outset, all three companies were caused to execute service contracts with Bond and Share, and have been "serviced" continuously since that time by Bond and Share and its wholly owned service company, Ebasco Services Incorporated.

In October 1926, approximately one year after acquisition from the Couch interests of the assets of The Southern Power and Light Company, Electric purchased control of

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90/ In electing the boards of directors of the three companies, Electric has always followed the practice of including as directors a number of residents in the territory in which the companies operate. Some of the reasons for this policy are suggested in the letter sent by Couch to Bond and Share shortly after the formation of Arkansas, from which the following is an excerpt:

> "I would have liked to announce the names of our new directors, not that there is any urgent demand for it other than there has been a lot of confusion about the state account (sic) of the exchange of stock certificates, merger, etc., and some talk about rate reduction now since my associates and myself have sold out and New York or foreign interests own the property.
>
> "I really do not know how far sentiment of this kind will affect anything. We try all along to carry the idea that it is a home company trying hard to develop and do something for Arkansas. It was hard to make the investment pay during this growth and we need every bit of the local cooperation possible."

After enumerating the names and qualifications of the individuals recommended, Couch went on to state:

> "You will note that there is a minister included which is quite unusual, but he is very practical, experienced and well acquainted throughout the state. There are some 300 or 400 Methodist ministers in the state and I thought this would be a compliment to all of them and I know they can be quite helpful. He is the type of man that will follow our suggestions and be in accord with everything that we want done and will give us an opportunity to feel the pulse of the public through him."

a holding company named Gas & By-Products Company, which in turn owned the control stocks of a number of companies engaged in various branches of the natural gas business in the states of Louisiana and Texas. To acquire control of this company, Electric issued 23,563 shares of its first preferred and 149,749 shares of its common stock, having an aggregate stated value of approximately $6,000,000. The acquisition of control of Gas & By-Products Company marked the definitive entrance of Electric into the natural gas industry, *91/* and the undertaking of what proved to be its largest and least remunerative investment —the United Gas Corporation.

There are presently pending before us separate proceedings which involve the respective rights and claims of Bond and Share, Electric, and the public security holders of United Gas Corporation, arising out of the organization, financing and subsequent history of the latter company. *92/* Since we shall hereafter be called upon to make definitive findings and determinations with respect thereto, we abstain at this time from a detailed discussion of this complex subject even though the record in the present proceeding contains a substantial body of evidence respecting it. However, in view of the circumstance that this is the only situation disclosed by the present record in which either of the subholding company respondents actually made a

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91/ It appears that Bond and Share's interest in the natural gas industry was stimulated by its association with Couch interests, which prior to Bond and Share's advent had acquired an interest in the large Monroe gas fields in Louisiana and had undertaken the construction there of the Sterlington steam electric station, employing natural gas as the fuel.

92/ Matter of United Gas Corporation, et al, Files Nos. 70-314, 70-315, 59-21, 4-33, Holding Company Act Release No. 2790. There are also pending in the courts various suits brought by stockholders of United Gas Corporation and stockholders of Electric, against Bond and Share and the directors of United Gas Corporation arising out of the facts referred to above.

large cash investment in equity securities. It seems appropriate to discuss briefly the outcome of this venture for Electric. *93/*

United Gas Corporation was organized by Bond and Share in March 1930 as a consolidation of certain natural gas properties already controlled by Electric with other properties controlled by unaffiliated interests. Most of the officers and directors of the new company were persons associated with Bond and Share, and the usual form of service agreement was entered into whereby Bond and Share was in complete charge of the affairs of the company. Operations of the company did not begin until June 1930, at a time when the depression was deepening over the land.

Into this venture Electric was caused to place $60,000,000 in cash, together with certain securities owned by it which stood on its books at approximately $27,400,000. For this investment Electric received second preferred and common stock and option warrants of United. *94/* During the first two years of United's existence, Electric received dividends on the second preferred stock of United in the aggregate sum of approximately $8,000,000. Commencing in 1932 dividends on the second preferred stock were suspended, and since that time Electric has received no further income of any kind on its investment. *94a/*

93/ We have elsewhere summarized the salient features of the United Gas situation, Holding Company Act Release No. 3301.

94/ Electric now owns 884,680 shares (100%) of the $7 second preferred stock, 3,795,086 shares (48.54%) of the common stock, and 3,600,040 warrants (73.99%) to purchase additional common stock at $33 1/3 per share.

94a/ Accumulated dividends in arrears on the second preferred stock on Dec. 31, 1941 aggregated more than $60,000,000. In addition, more than $9,000,000 of dividend arrearages have accumulated on United's $45,000,000 of first preferred stock, 96.16% of which is owned by the public, and 3.84% by Bond and Share.

Of the $60,000,000 cash which Electric was required to pay into United Gas Corporation, $36,000,000 was paid in June 1930 and the balance in 1931. Electric in 1930 sold to the public $31,000,000 principal amount of 5% debentures and $20,000,000 stated value of preferred stock for total net proceeds of approximately $46,000,000. In order to raise the additional $24,000,000 required in 1931 Electric made an offer to its common stockholders to subscribe to additional common stock at $15 a share, which offer Bond and Share underwrote. Only about $1,000,000 was subscribed by public stockholders of Electric through the exercise of their rights and the sum of approximately $20,500,000 was paid in by Bond and Share under its pro rata subscription and pursuant to the underwriting.

There is strong indication in the record that in formulating its plan for the organization and financing of United, Bond and Share sought to set the stage for the customary recoupment by the subholding company of the major part of its investment. This apparently was to be accomplished by the sale or redemption of Electric's holdings of the second preferred stock, leaving it in possession of a control block of United's common stock at little or no cost. However, such public financing was never consummated. Indeed, as stated below, it became necessary for the system itself to supply substantial additional amounts of cash.

The investment of Electric at the organization of United did not actually serve to supply working capital or funds for future development. The greater part of such funds was required, and was indirectly employed, for the original purchase of one of the groups of assets which went into United at organization. The cost of these assets to United was $50,000,000, although they had been carried on predecessor books at approximately $24,000,000. Thus the greater part of the cash investment made by Electric was used, in effect, for the acquisition of control of a going enter-

prise rather than for future development of the new enterprise.

One result of such use of the cash received by United Gas Corporation at organization was to reduce its working capital position to a negligible amount during its early years. As a result, since large amounts were needed for operations and development of the system, the practice of open account borrowing from Bond and Share was resorted to and a very large indebtedness to Bond and Share soon accumulated.

Bond and Share now has debt claims against United of $52,925,000. On this investment Bond and Share is currently receiving a return of approximately $3,000,000 per annum in the form of interest. Interest on the indebtedness has uninterruptedly been paid to Bond and Share at the rate of 6% from the organization of United to the present time. Up to the end of 1941 the total interest thus received by Bond and Share aggregated more than $26,700,000. In addition Bond and Share has received a total of $1,026,106 as dividends on 17,310 shares of United's first preferred stock, and approximately $3,500,000 in the form of service and construction fees from United and its subsidiaries. 95/

By contrast, as stated above, Electric received approximately $8,000,000 of dividends on the second preferred stock of United in the first two years after organization of United, but has received no income whatever since United suspended dividends on its second preferred stock in 1932. Since organization of United, Electric has paid more than $18,000,000 in interest charges alone on the $31,000,000 of debentures issued by it in 1930, as aforementioned. It also

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95/ It is to be noted that in May 1941, United Gas Corporation sought authority from this Commission for the issuance and sale of $75,000,000 principal amount of bonds, from the proceeds of which it proposed to pay Bond and Share its indebtedness in full. This application was consolidated with the proceedings instituted by the Commission, and constitute one of the pending proceedings referred to in n. 92, *supra*.

paid substantial dividends on the preferred stock issued in 1930 until it was compelled to suspend dividends on all of its outstanding preferred stock in 1932. Thus, the foregoing circumstances regarding the organization and financing of United have been a very major factor in the current financial difficulties of Electric and its inability to service its publicly held securities. *96/*

Dividend payments on Electric's first and second preferred stocks were curtailed during 1932, and suspended entirely at the end of the year. *97/* No further dividends were paid on the preferred stocks until 1940. In 1940 and 1941, small payments were made on the $6 and $7 preferred stocks. As of December 31, 1941, arrearages on the first preferred stock totaled $45,757,676, and on the second preferred stock $5,131,649 additional. *98/*

Subsequent to the organization of Electric, Bond and Share purchased no additional securities of Electric directly from it with the single exception in 1931 previously mentioned in connection with Electric's efforts to raise the money for which it was obligated in the United Gas venture. However, in August 1929 Bond and Share had commenced to make substantial purchases of Electric common stock on the open market. These purchases were intensified and increased after the market crash in 1929, and continued during 1930. In all, a total of 260,601 shares of Electric com-

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96/ As is noted below, not only was Bond and Share in control of United Gas Corporation during the occurrence of the events above described, but it also exercised complete dominion over Electric, and Bond and Share employees and officers carried out all the various transactions in Electric's name.

97/ It is to be noted that despite the increasing financial difficulties of Electric, the company declared a dividend of $829,177 on its common stock in 1932, immediately prior to curtailment of preferred dividends.

98/ Set forth as Appendix K is a table showing corporate and consolidated earnings of Electric from 1925 to December 31, 1941, dividends paid and accumulated arrearages, on a yearly basis.

mon were purchased by Bond and Share on the open market for the aggregate sum of $12,759,565, or an average price of $49 per share. *99/* In contrast, the 1,644,203, shares of common stock acquired by Bond and Share directly from Electric at organization and in 1931 cost Bond and Share a net total of $13,632,000 or about $8.30 per share. As shown by Appendix H, additional Electric securities were acquired by Bond and Share as the result of the consolidation and merger of the latter with various affiliated companies which occurred in 1929.

Throughout the years from the organization of Electric until November 1935, Electric, like American, was functionally merely a set of books in Bond and Share's office. All corporate activities performed by, or in the name of Electric, were performed by employees of Bond and Share, and the affairs of the company and its subsidiaries were in all respects under Bond and Share's complete dominion.

D. *Effect of 1935 Organizational Changes in Bond and Share System on American and Electric*

In November 1935, shortly before the effective date of the registration provisions of the Public Utility Holding Company Act of 1935, there was carried out throughout the Bond and Share system the general organizational revision which we have previously described in our *National* Findings and Opinion. As we there related, in connection with the over-all system changes which took place at that time, each of the subholding company respondents was given a complement of officers and employees of its own, *100/* and

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99/ These figures represent the totals of all market purchases made by Bond and Share from the time of Electric's organization to date.

100/ The table set forth below indicates the comprehensive interlocking of officers and personnel which existed between Bond and Share and the subholding company respondents up to

each was assigned a separate suite of offices in the Bond and Share office building. At about the same time the formal interlocking which had theretofore existed between the boards of directors of Bond and Share, the subholding companies and their subsidiaries, was substantially terminated. *101/*

In the case of American, a group of 17 employees of Bond and Share was moved, together with books and records of American, into offices located on the floor above those of Bond and Share. H. L. Aller, who for more than eight years had been a "sponsor" in the service department of Bond and Share, was made president and chairman of the board of American; *102/* L. W. Parkhurst, for a number of

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November 1935, pursuant to the arrangements which have been described in the previous sections of this opinion.

	Bond and Share	American	Electric	National	Subsidiaries of the three subholding companies	
					No. of Offices held	No. of Directorships held
Groesbeck, C. E.	D.-Ch.B.D.	D.-Ch.B.D.	D.-Ch.B.D.	D.-Ch.B.D.	4	6
Inch, S. R.	D.-Pres.	D.-Pres.	D.-Pres.	D.-Pres.	2	5
Sawyer, P. B.	V.P.	D.	D.	D.-V.P.	5	9
Summerson, E. P.	D.-S.	S.	S.	D.-S.	10	2
Lee, E. B.	A.S.	V.P.-A.S.	V.P.-A.S.	V.P.-A.S.	3	–
Ray, A. C.	T.	T.	T.	T.	10	–
Simpson, A.	A.T.	A.T.	A.T.	A.T.	8	–
Hickman, G. J.	A.T.	A.T.	A.T.	A.T.	6	–
Lang, W. C.	Comp.	Comp.	Comp.	Comp.	3	2

101/ An exception was made, however, in the case of Electric and its subsidiary, United Gas Corporation. The directors and officers of Electric have continuously served as the directors and officers of United, and such relationship exists up to the present time. Until April 15, 1941, the two companies shared payments of the salaries of the joint officers but since that date Electric has paid their entire salaries.

102/ A "sponsor" in the service section of Bond and Share was the equivalent of a supervisor over a group of operating companies or over a department. The service section was divided into departments, such as budget department, engineering department, etc., each of which was headed by a sponsor; these de-

years a vice-president of Bond and Share, American, Electric, and National, remained as vice-president of American; D. W. Jack and C. W. Scholz, Bond and Share accountants, were appointed respectively secretary and treasurer, and assistant secretary and assistant treasurer. The remaining personnel comprised several bookkeepers and accountants and a number of stenographers and clerks, each of whom had until that time been an employee of Bond and Share. From November 1935 until the present time, there has been no substantial change as regards either the number or identity of American's personnel.

Prior to November 21, 1935, the board of directors of American consisted of 9 members, of whom 4 were officers, employees or directors of Bond and Share, and 2 others were officers, employees, or directors of other companies of the Bond and Share system. In November and December 1935, pursuant to the general reorganization previously referred to, 6 directors of American resigned and were replaced by new directors, among whom were the 4 newly appointed officers of American and 1 other, making a total

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partments performed work for all serviced companies. In addition, however, there was an operating department which was subdivided into groups on a geographic basic, viz., the Southwest group, Northwest group, North Central, South Central, South Eastern, and United Gas group. Each group was headed by a sponsor who was in charge of the operations of the operating companies located in the geographic area described by the particular group's name, *irrespective of subholding company affiliation*. Thus, for example, the Southwestern group includes Texas Power & Light Company, Texas Electric Service Company, and Texas Public Utilities Corporation, subsidiaries of American; Dallas Power & Light Company, subsidiary of Electric; and Houston Lighting & Power Company, a subsidiary of National.

These same groupings by geographic location without regard to subholding company affiliation carried over to Ebasco Services Incorporated in 1935, and are in use at the present time.

board of 8 members. *103/* The present board consists of 9 members.

In the case of Electric, a group of 14 employees of Bond and Share was moved, together with books and records of Electric and United Gas Corporation, into offices located on the floor above those of Bond and Share and immediately adjoining those of American. Joe H. Gill, who had been associated with the system for more than twenty years and for several years prior to 1935, like Aller, had been employed by Bond and Share as a "sponsor", was made chairman of the board and president of Electric and of United Gas Corporation; E. W. Hill, for many years a vice-president of Bond and Share and each of the subholding companies remained a vice-president of Electric and United Gas; Edgar H. Dixon, a Bond and Share accountant, was made secretary and treasurer; and A. F. Høffman, Bond and Share accountant, was made assistant secretary and treasurer. The remaining personnel included several bookkeepers and a number of stenographers and clerks, all of whom had theretofore been Bond and Share employees. From November 1935, until the present time there has been no substantial change as regards the number or identity of Electric's personnel.

Prior to November 21, 1935, the board of directors of Electric consisted of 9 members of whom 8 were officers, employees or directors of Bond and Share or other system companies. In November 1935, pursuant to the general system reorganization previously described, 7 directors of Electric resigned and were replaced by new directors including four of the company's newly appointed officers. Electric's board has continued to consist of 9 members, of whom at the present time five are officers of the company.

103/ The record establishes that all new directors were selected by Groesbeck and Inch, at that time chairman of the board and president, respectively, of Bond and Share.

At the time the aforementioned changes were effected in the subholding companies, Bond and Share organized Ebasco Services Incorporated a wholly-owned subsidiary, to which was transferred the entire service section of Bond and Share. All of the subsidiaries of American and Electric duly entered into service contracts with Ebasco and have continued to operate under such arrangements up to the present time.

We indicated in our *National* Findings and Opinion that the organizational changes effected in 1935 constituted a futile attempt by Bond and Share, with a view to the immediate impact of the Holding Company Act on the system, to impress on the subholding company respondents something of the character of independent organizations, separate and distinct from Bond and Share, and to impart to them a semblance of function. *104/* It was conceded by witnesses for the respondents that the organizational changes in November 1935 were based on advice of counsel that the newly enacted statute "threatened the existence" of the subholding companies. In summarizing the effect of the 1935 move on National, we stated:

"The effect of the 1935 move was merely to move into

104/ It could scarcely have been hoped that the organizational revision would form the basis for a disclaimer of control by Bond and Share over the subholding company respondents, in light of the long years of intimate relationship between Bond and Share and those who became the officers, employees, and directors of the subholding companies, the servicing arrangements between all the subsidiaries of the subholding companies, and the heavily concentrated voting strength of the securities of the subholding companies owned by Bond and Share. (See n. 129 *infra*.)

Not only have Bond and Share and the subholding company respondents made no claims of non-control by appropriate applications under Section 2 (a) (8) of the Act, but the record in the present proceeding contains specific admissions on the part of counsel and the presidents of the subholding companies that such control by Bond and Share is not denied.

a separate office in the Bond and Share building a group of Bond and Share employees who were to concentrate their time and effort solely on the corporate activities of National. Instead of Bond and Share having, as formerly, a large group of employees in its treasury and bookkeeping departments, all of whom worked on the books of Bond and Share, National and the other subholding companies *pari passu,* one group of such employees was assigned to work on National's books exclusively; instead of being paid as formerly by Bond and Share, they have been paid by National; instead of occupying one large suite with Bond and Share and all its subholding companies, the employees of National occupy a smaller suite in the same building. Nothing more fundamental than this has occurred."

The record makes it plain that the 1935 move resulted, in the case of American and Electric, in changes of a character no more fundamental than in the case of National. The personnel transferred to American, like that transferred to National, is sufficient merely to perform necessary routine activities incident to the functioning of the subholding companies as corporate owners of securities. In addition, the presidents of the two companies endeavor to exercise a measure of proprietary surveillance over the activities of their subsidiaries in much the same manner in which they functioned previous to 1935 as "sponsors" in the Bond and Share service section, but apparently with somewhat greater authority.

The record further establishes that there is close and constant contact and coordination between the personnel of the subholding company respondents and the personnel of Bond and Share and Ebasco and that, in effect, the personnel of the subholding companies have functioned since November 21, 1935 as subsidiary and complementary

organizations of Bond and Share, possessed of substantially the same outlook, objectives, and loyalties as they had prior to November 1935.

As in the case of National, not only has the 1935 maneuver failed to impart "function" to the subholding companies, but it has resulted in substantially increased expense and duplication of personnel as compared to the period prior to November 1935. As we pointed out in our earlier Opinion, the president of National indicated that because of the increased expenses and decreased efficiency of the present arrangement, he regarded the 1935 revision as something of a nuisance imposed by the Holding Company Act and unequivocally proclaimed that he "would be delighted to go back to the old arrangement".

In our opinion, the ineffectual 1935 move has significance primarily as an expression of the recognition by the respondents of the vulnerability of the subholding companies to Section 11(b)(2) of the statute. Apart, however, from the transparent superficiality of the revision which was made, we doubt that even changes of the most drastic character in the structures of the Bond and Share system and the subholding companies could have saved the latter from the impact of Section 11(b)(2), because, as we stated in our National Opinion, the subholding companies having been conceived and utilized solely as pyramiding devices in the Bond and Share system, "thus stood squarely within the focus of the statutory intendment".

Although it scarcely seems necessary to emphasize further the narrow role of the subholding companies in view of the historical survey outlined above, it may be noted that in the past respondents themselves have made significant admissions in that regard. For example, the record contains the following testimony given by S. R. Inch, then president of Bond and Share and now president of Ebasco Services Incorporated, before the Committee on

Interstate and Foreign Commerce of the House of Representatives during the pendency of the present Act:

> Mr. Inch: "The Electric Bond and Share Company plan has been developed on the idea that its associated holding companies *are merely investment companies* through which equity money could be raised for the financing of the operating subsidiaries.
>
> "These associated holding companies have no payrolls, receive no fees, hold no outside investments, and *serve no functions* except the very important ones of providing the equity money for, and the cash needed from time to time by their own operating subsidiaries."
>
> • • •
>
> Congressman Mapes: "Why could not that all be done by the Electric Bond and Share Company?"
>
> Mr. Inch: "It could, except that it was not at that time. I do not know whether it was wise or not; but it has worked, and that is really the test of usefulness of these things. It was thought desirable when that group was done to close it and go on and do another job and *then to get the new investors that might come into that, you see. . . .*" (Italics supplied)

We think that Inch quite correctly summarized Bond and Share's purpose in forming the subholding companies in the single phrase that it was "to get the new investors that might come into that". The historical survey set forth above establishes that Bond and Share formed the subholding companies for the purpose of getting public investors to provide the money to: (1) reimburse Bond and Share, with a profit, for its entire investment in groups of assets, while leaving Bond and Share in undisturbed dominion of these assets and with claims to a portion of their earnings; and (2) acquire control of the greatest possible number of additional properties to which Bond and Share's dominion

would extend. It was this function which the subholding companies preeminently served, and this was the fundamental role of the subholding companies in the development of the Bond and Share system.

As to the claim of Inch that the subholding companies also served the function "of providing the equity money for, and the cash advances needed from time to time by, their own operating companies", our survey of the record has convinced us that such "services" were more apparent than real, and that the subholding companies in fact contributed nothing of substantial value in that regard with one possible exception. *104a/* Since the respondents have insistently urged in the present proceeding, as did Inch before the House Committee, that the subholding companies if they did nothing else performed an important role in furnishing equity capital to their subsidiaries, we accord this contention special consideration below.

E. *Relations of Subholding Companies with Operating Companies*

1. Capital Supply

From the discussion set forth above, it is apparent that until November 1935 all contacts and dealings of the operating companies with the subholding companies took place exclusively through officers and employees of Bond and Share. To the operating companies, their subholding company parents were necessarily mere abstractions, with Bond and Share standing *in loco parentis*. Respondents have repeatedly urged, however, that it was the subholding companies which furnished the "risk capital" to the operating companies, and that the subholding companies also kept their subsidiaries supplied wit.. a steady stream of cash advances on open account.

104a/ Reference is had to Electric's investment in United Gas Corporation discussed *supra*.

The fact of the matter is, as we have already indicated, that no substantial amount of risk capital was furnished to the operating companies by either the subholding companies or by Bond and Share. The investment which the subholding companies made in the securities of the operating companies were made principally in the process of *purchasing control* of the operating companies from those in whom this control rested, a process which contributed nothing to the treasuries of the operating companies. In large measure, this process was effected merely through issuance by the subholding companies of their own securities to controlling interests in exchange for the securities of operating companies owned by such controlling interests. The record indicates that of American's total capitalization of $260,428,677 (exclusive of surplus), at least $185,937,000 of its securities constituting 71.4% of total capitalization were issued in exchange transactions of this type, and additional amounts were issued to procure cash for purchasing control in other situations. In the case of Electric, while not susceptible of exact computation, it appears that an equally great percentage of its total capitalization was issued directly in the process of acquiring control of operating properties or was issued indirectly in transactions essentially of the same character.

We have already described the financial pattern employed by the subholding companies (under Bond and Share's aegis) in setting up those operating companies which represented an amalgam of smaller units. *105/* Through system-

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105/ See notes 50 and 70 and text discussion at pp. 30-32 & 40-41, *supra*. As was pointed out in note 51, commencing in 1925 American acquired control of a number of companies which were already going concerns. Among these were: Superior Water, Light & Power Company, Central Arizona Light and Power Company, Northwestern Electric Company (all in 1925), The Washington Water Power Company, and The Montana Power Company (1928).

atically writing up the property accounts of the reorganized operating companies and causing them to issue to the subholding companies securities in amounts greatly exceeding the latter's cost, the subholding companies were enabled to recover all costs incurred in the process of combination as well as the greater portion, if not all, of their initial cost of acquiring control. *106/* The record presents this pattern stamped with almost monotonous regularity on each of the subsidiaries organized by American and Electric, as we previously found to be the case in National. We do not believe it is necessary to cumulate the details for each instance; a glance at Appendices E-2 and F-2 of this Find-

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106/ See note 50 *supra*, for mention of instances in which subholding companies emerged with a *minus* cost for their entire investment in subsidiaries. The record indicates that where the burden of the inflated structure could successfully be imposed on the rate payers, the return to the subholding company on its ordinarily insignificant investment, attained in the manner described above, was frequently striking. For example, in the case of Kansas Gas & Electric Company, American's first subsidiary in point of time, American for many years received an annual return in excess of 30% on the system investment, and over the entire 30-year period from 1910 to 1940, its return has averaged about 16% per year. In the case of Portland Gas & Coke Company, American's second subsidiary, its annual return for many years exceeded 43%, but commencing 1933, dividends were suspended not only on the common stock but on the preferred owned by the public. Arrearages have accumulated on the preferred each year since 1933, and at the present time exceed $53 per share. In the case of Nebraska Power & Light Company, American with a substantial *minus* investment received a total of $20,037,846 in dividends from acquisition in 1917 until the present time, and is currently receiving common stock dividends at the rate of $1,000,000 per year. Similarly, Electric, in the cases of Arkansas Power & Light, Mississippi Power & Light, and Louisiana Power & Light, from 1927 to 1932 received an annual return which averaged 26% on combined investment. Commencing 1933, however, dividend arrearages on the publicly-held preferred stock of Arkansas and Mississippi began to accumulate. In 1940, Arkansas Power & Light cleared off preferred arrearages, but in the case of Mississippi, such arrearages exist at the present time.

ings and Opinion demonstrates that each of the subsidiaries formed by either subholding company bears on its the deformities resulting from this type of birth, in the form of inflated plant accounts and overcapitalized structures. *107/*

It is true the record establishes that in the process of combining companies preparatory to formation of a reorganized operating company, the subholding companies did make outlays which in some instances were substantial. These, however, were purely transitional and not at all in the nature of equity capital. *108/* Moreover, it appears

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107/ The record also contains strong indication that most of the operating companies of the system have inadequate reserves for depreciation, resulting from the slender accruals made in past years in response to the insistent demands of their holding company parents for payment of the largest possible amount of dividends. This policy of reducing accruals to the depreciation reserve as low as possible in the interest of maintaining or increasing dividends to the holding company parent is observable in sharpest outline in instances where control was acquired of a well-developed operating company. For example, The Washington Water Power Company, prior to the time that American acquired control, had been consistently accruing to its book reserve for depreciation at a rate equal to approximately 3.37% of depreciable plant, and about the same amount was claimed for income tax purposes. In 1928, the first year of American's control, the accrual for depreciation was cut to 1.85% of depreciable plant, although no reduction was made in the amount claimed for income tax purposes, and dividends paid on common stock were increased. In subsequent years, book accruals were ultimately reduced to a low of 1.04%, or less than 1/3 the rate of accrual prior to American's control. It is also to be noted that the reduction in depreciation accruals was accompanied by a reduction in the ratio of expenditures for maintenance. (Cf. n. 132 *infra.*)

108/ For example, in the process of transferring the properties of a group of operating companies to a new large operating company, the subholding company frequently advanced the funds needed to call the outstanding bond issues of the constituent companies in order to permit a new bond issue covering all the property of the new company. The new bond issue would go to the subholding companies along with the preferred stock and common stock of the new company, and would promptly

that even in the making of these transitional outlays, the subholding companies were often merely conduits for the funds of Bond and Share and the other companies of the system, including the subsidiaries of the particular subholding company involved. *109/*

In the entire thirty-two year history of American, the record indicates only four instances of purchases of common stock of subsidiaries subsequent to organization, none of which constitutes an impressive instance of the supply of "risk capital". *110/* The record further indicates that in

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be resold by the subholding company (through Bond and Share and underwriters) to the public. Usually the gap between the calling of the bonds of the constituent companies and issuance of the new bonds did not exceed a period of weeks.

109/ All funds of each of the operating companies of the system not immediately needed in current operations were forwarded to Bond and Share and banked by it in New York banks. (This is still the practice.) Bond and Share would then draw on these funds to supply the immediate needs of other system companies through an elaborate system of debits and credits to the loan accounts maintained for each company. Moneys not needed by Bond and Share for system purposes were placed by it on loan in the call loan money market. In making loans to subholding companies such as American and Electric, it was Bond and Share's practice until 1930 to utilize so far as possible the available funds of the subsidiaries of the particular subholding company, through "upstream loans."

110/ In 1915, American accepted stock of Pacific Power & Light Company in the amount of $100,000 in exchange for some properties. In 1928, American purchased for $3,000,000, 300,000 shares of common stock of Kansas Gas & Electric Company, and in the same year made a similar purchase of common stock of Portland Gas & Coke Company. At the time of the purchase and for many years earlier, as has already been related, American had been receiving a return of 32% on its investment in Kansas and 43% on its investment in Portland. The purchases by American were in the nature of reinvestment of dividends previously received, and apparently resulted in each case in a sharp increase in the amount of dividends paid on the common stock in succeeding years. On the basis of the market price for utility stocks prevailing at the time, it ap-

instances in which American actually found it necessary to furnish capital to an operating company, it arranged to furnish such money in the form of a debt security, outranking the publicly-held preferred stocks. *111/*

In the case of Electric, we have already made reference to the fact that as respects the five operating companies of which Electric obtained control at its inception in 1925, Electric subsequently made additional investment in the case of only one, Dallas Power & Light Company. *112/*

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pears that both companies could have sold their common stock on the market at prices considerably in excess of the $10 per share paid by American.

The fourth of the instances referred to, was the purchase for $600,000 of additional common stock of Portland Gas & Coke in 1940. At that time American was seeking to arrange an extension of Portland's maturing bond issue. To facilitate such bond extension, and in connection with proceedings pending before this Commission, American agreed to make the additional purchase.

111/ For example, in the formation of Florida Power & Light Company in 1925, American transferred to that company assets which had cost American not exceeding $30,000,000 for securities of Florida aggregating $60,000,000, thus permitting American to retain Florida's entire common stock, having a stated value of $30,000,000, at no cost. Subsequently when it became evident that Florida's need for capital was greater than the public would supply under the circumstances, American loaned Florida $22,000,000 (of which a portion went to pay dividends to American) and later took from Florida 6% debentures in that amount. Although the publicly-held preferred stock of Florida later went into arrears of dividends, and remained in arrears for more than 7 years, American continued regularly to collect the 6% interest on the $22,000,000 of debentures. Other instances in which American made its investment in the form of debt securities are found in Pacific Power & Light Company, Texas Power & Light Company, Superior Water, Light & Power Company, and The Montana Power Company.

112/ This instance resembles that of American's 1928 purchases of additional common in Kansas Gas & Electric Company and Portland Gas & Coke in that Dallas was a highly prosperous and seasoned company which could easily have sold its common stock on the open market at a price considerably in excess

In respect of subsidiaries formed subsequent to its organization, other than the United Gas Corporation which has been described above, Electric made two purchases of no great significance. *113/*

Thus it appears that the contribution of the subholding companies in furnishing "risk money" to their subsidiaries is substantially on a level with the contribution of Bond and Share in furnishing risk capital to the subholding companies. We find that it has been the public investors in the

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of that paid by Electric, and the effect of Electric's purchase was to increase earnings still further. The prosperity of the Dallas Company apparently stems from the provisions of the company's franchise agreement with the city, entered into in 1917. At the time this agreement was entered into, the company's maximum allowed rate was 8 cents per kilowatt hour. The agreement provided that the company should be entitled to a 7% return on its rate base, but that for every reduction of ½ cent per Kwh below the 8 cents rate made by the company in the charge for energy, the company's allowed rate of return would increase ½ of 1% until the rate was reduced to 6 cents per Kwh; and thereafter for every reduction of ½ cents per Kwh, the company's allowed rate of return would increase ¼ of 1%. Thus, as the company reduced rates in line with the progress of the art, its allowed rate of return steadily mounted, so that at the present time the company is permitted to received a 9½% return on the rate base, although its rates stand at about the national average.

113/ In the case of Louisiana Power & Light Company, Electric purchased additional common stock in January 1931 for the aggregate sum of $1,000,000. This purchase was similar to those made by American in Kansas and Portland, and Electric in Dallas, as discussed above. At the date of the purchase, Electric had a negative investment of approximately $1,000,000 in Louisiana and had continuously been receiving large dividends. The other instance referred to was of a different character; Electric had been making purchase of various water sites near the White River in Arkansas, apparently with a view to selling them to its subsidiary, Arkansas Power & Light Company. In 1935 it had become apparent that the hoped for water power project would materialize in the remote future, if at all. Accordingly, Electric transferred the properties to Arkansas for approximately $2,300,000 of Arkansas' common stock, an amount equivalent to Electric's cost, plus approximately $500,000 of interest carrying charges.

securities of the subsidiaries of American and Electric who have supplied virtually all the capital that has gone into the development of such subsidiaries subsequent to their acquisition by American and Electric, just as it had been the public investors rather than Bond and Share who supplied to American and Electric the capital which enabled them to acquire such control. Nevertheless, full control over this money contributed by the public has been at all times exercised by Bond and Share whose contribution of capital to the system has been inconsequential. How Bond and Share has exercised this control, and for what purposes, has been sufficiently indicated in the foregoing pages.

Respondents have frequently reiterated the claim that the subholding companies have conferred substantial benefits on their subsidiaries by supplying them with large amounts of short-term capital in the form of loans. We encountered and discussed the same contention in our *National* Findings and are obliged to repeat here the substance of what we said previously: (1) the imposing totals which are mentioned by respondents are misleading since they reflect an indiscriminate cumulation of numerous transactions conducted on a daily basis in the form of open book accounts; *114/* (2) a considerable number and volume of the loans were arranged to make possible the payment by the subsidiary of dividends and interest to the subholding company in transactions which represented little more than book entries designated to enable the subholding companies to take into income account the sums which it "loaned" the subsidiary; (3) the monies loaned by the subholding

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114/ As we pointed out in the National Findings, it is not infrequent to find loans made and repaid several times in course of a single month. Thus, if $100 were loaned and repaid four times during one month, and this type of transaction occurred in three months during a year, respondents' total of loans would include $1200 for the year in question.

companies were to a large extent obtained from their respective subsidiaries in the form of upstream loans.

As we indicated in our earlier "Findings and Opinion" on National these loans do not impress us as having conferred any noteworthy benefit on the operating companies. Although they were practically riskless to the subholding companies, the operating companies were almost always charged not less than 6%, *115/* and apparently in many instances the interest was compounded quarterly. *116/* In large measure the loan transactions resulted from a system policy of restricting the cash and working capital of the subsidiaries to a minimum. Whenever the subsidiaries borrowed from banks, they were able to obtain funds at no less favorable terms than charged by the subholding companies, and generally on terms considerably more favorable. *117/* Moreover, these loans being in essence mere demand loans,

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115/ In some cases, rates as high as 8% were charged; in a few instances subsequent to 1937, however, American has made loans at times as low as 4%, and Electric as low as 3%.

116/ Debits and credits were being made almost daily, and each quarter the account would be debited for interest accrued during the period, thus effecting a compounding.

117/ The record is replete with instances in which the subholding company would cause the subsidiary to borrow from a bank in order temporarily to repay the subholding company (e.g. for year-end balance sheet clean-ups), such loans being obtained by the subsidiary from the bank at a rate considerably lower than that charged by the subholding company. Upon reinstatement of the loan with the subholding company, however, the higher rate would again be charged. The record also contains instances of operating companies which, prior to acquisition of control by one or another of the subholding companies, enjoyed bank credit at 4½ and 5%, but after becoming part of the Bond and Share system were caused to borrow from the subholding company at 6%.

Even at the present time the record indicates that American and Electric have loans outstanding with some of their subsidiaries on which they collect interest at the rate of 6%, although the going bank rate on loans to utilities for the past 5 years has been less than 3% and is now closer to 2%.

the subsidiaries could be, and at times were, placed in difficult and costly situations by the untimely demands of hard-pressed subholding companies. *118/*

Whatever may have been the situation in the past, we note that subsequent to November 1935, American and Electric have made loans to subsidiaries in perhaps a dozen instances, the amounts involved being relatively small and in most cases for very short periods. Since the subholding companies charged from 3 to 6% on loans which almost certainly could have been obtained by the subsidiaries from banks for less, *119/* it is clear that the transactions were de-

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118/ For example, the record discloses that in May 1921, American, being hard-pressed for funds, found it necessary to issue $3,500,000 principal amount of 20-year 8% notes, collateralized by bonds of four of its subsidiaries aggregating $7,000,000. American caused these subsidiaries to issue to it the aforementioned $7,000,000 of bonds carrying an interest rate of 8% in payment of existing open account indebtedness owing to American. Moreover, American credited the subsidiaries with only 86½ for each 8% bond issued.

A year and a half later, American was able to redeem its own notes and thereupon caused the subsidiaries to call their bonds, paying American $100. The cost to the subsidiaries for the 17-month period the bonds were outstanding was 28.2%, or an effective rate of 19.8% per annum.

The record indicates that the subsidiaries were not consulted in advance as to the transaction, their first notice being received from Bond and Share's New York office instructing them to execute necessary documents and make appropriate entries on their books.

119/ For example, on November 15, 1937, Central Arizona Light & Power Company borrowed $100,000 from American, the loan being outstanding for 1 month, at 4% interest. The record indicates that about the same period (December 18, 1937), Central Arizona borrowed $100,000 from a New York bank, paying it only 2% interest. On July 14, 1938, Central Arizona again borrowed $50,000 from American for 1 month and again paid interest at 4%.

Superior Water, Light & Power Company since 1932 has owed American open account indebtedness in the amount of $1,636,000, on which American regularly collected 6% interest until December 1, 1938. At the latter date, as the result of an

signed to benefit the subholding companies rather than the subsidiaries and were actually at the expense of the subsidiaries.

We note also that from November 21, 1935 to the present time, there have been no purchases by the subholding companies of any of the securities of their subsidiaries, with a single insignificant exception. *120/*

2. Other Aspects of the Relationship Between the Subholding Companies and Their Subsidiaries

In probing the insistent claims of the respondents as to the past benefits conferred by the subholding companies on their subsidiaries, other aspects of the relationship between the subholding companies and their subsidiaries came to light. We have already referred to the practice of writing up the property accounts of the operating companies of the system, and its consequences for both the investing and the consuming publics. Reference has also been made to some of the maneuvers employed to increase the voting strength of the subholding companies and of Bond and Share at the expense of the public security holders of the system, *121/*

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investigation by the Wisconsin Public Service Commission, interest was reduced to 5%, at which rate it is presently being paid although Superior last year found no difficulty in selling to banks $1,600,000 of notes at an interest rate of 1½ to 2½%. (See Holding Company Act Release No. 3265.) Similarly, American holds a note of Pacific Power & Light Company in the amount of $2,794,500, on which American has regularly collected, and now collects 6% interest. On November 25, 1940, this note matured and was continued as an "overdue note," concededly in order to avoid the necessity of obtaining the approval of this Commission with respect to the issuance of a new note.

120/ Reference is made to the purchase by American in 1940 of common stock of Portland Gas & Coke Company in the amount of $600,000, in connection with proceedings pending before this Commission for extension of Portland's bond issue.

121/ See note 62 *supra*.

to the servicing arrangements through which Bond and Share exercised control while realizing substantial profits, to the unsound depreciation and dividend policies imposed on the subsidiaries and to other intra-system transactions designed to benefit the holding companies at the expense of the operating companies. The fact is, as we pointed out in our earlier Opinion on National that the record abounds with reiterated and striking examples too numerous to detail here, of every type of holding company abuse enumerated in Section 1(b) of the Public Utility Holding Company Act of 1935. We find nothing in the record indicating that the relationship of the subholding companies to the operating companies has redounded to the benefit of the latter, or has been in any way in the public interest or the interest of investors or consumers. We find much which emphatically compels a contrary conclusion.

With respect to respondents' claims concerning improvements in service, lowering of rates and the like, we think it sufficient to quote from our discussion of these points in our *National* Opinion. We there stated:

> "There is no necessity to question that during the period of thirty odd years since acquisition of the first of the present National properties by Bond and Share there may have been improvement in efficiency and economy of operation, some lowering of electric rates, extension of the areas of service, and an increase in the use of electricity per customer in the aggregate. There is no evidence in the record, however, that such improvements were more noticeable in the Bond and Share system than elsewhere, and it is idle to speculate whether the course of technical development of the industry in general or of any particular properties might have been at a different pace if the phenomenon of holding company control had not arisen.

"In any event we are unable to find in these portions of the record any justification for the continued existence of National. In the first place, whatever contribution may have been made in the formative stage of the industry can hardly be significant at present, when the pioneering stage has definitely been passed and other and different problems are present. Whatever may have been the situation in the past, there is no indication that any of the operating companies will be in a position of requiring, or that National will be in a position to furnish, any benefits in the future. Secondly, to the extent that holding company benefits may have been conferred in the past it is clear from the above discussion of the functional nature of National that such benefits could not, by the very nature of National's organization, have been derived from it. . . .

"In conclusion, our examination of the record convinces us that claims of past benefits have not been established or are irrelevant; that whatever benefits may have existed were into-woven with and on the whole overshadowed by numerous abuses of the very kind which motivated the enactment of the statute; and that in any event there is nothing in the past history of the system that requires or justifies the continued existence of National under the standards of the statute."

V. Impact of Section 11(b)(2) on American and Electric

It is appropriate to project the Bond and Share system as it stands at the present time against the background of the historical survey set forth above, in order to determine whether and in what respects the system is repugnant to the standards of Section 11(b)(2), and if so found, to point the appropriate remedy. Since the standards of this section

are cast in terms of fair and equitable distribution of voting power and undue and unnecessary complexity, it is in these terms that we undertake our discussion.

A. *Distribution of Voting Power*

1. Over-all aspects

As has previously been stated *122/* the five subholding company subsidiaries of Bond and Share and their consolidated subsidiaries have combined consolidated capitalizations (including surplus) of $2,889,561,848. The securities of all system companies owned by Bond and Share have a stated value on the books of such companies of $576,013,000 after adjustment is made for accumulated dividend arrears on preferred stocks. *123/* This sum is equal to approximately 19.9% of the aforementioned combined consolidated capitalization of the five subholding companies. However, Bond and Share owns no equity securities in any of the 237 operating companies of the system with but one minor exception; *124/* such system operating company securities as Bond and Share does own (with the one exception noted) are debt securities, having no voting power. Thus, Bond and Share's basic control over its vast utility empire stems exclusively from its ownership of

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122/ *Supra*, Section III. A.

123/ In making adjustment for dividends in arrears, the amount of such arrearages has been added to the stated or liquidating value of the preferred stocks and deducted from the surplus and stated value of the common stock of the various companies. This adjustment has been made in connection with all computations indicated as having been adjusted for accumulated preferred arrears.

124/ The single exception relates to United Gas Corporation, a direct subsidiary of Electric. In addition to $52,925,000 of debt obligations of United Gas Corporation, Bond and Share owns 3.85% of the company's 7% preferred stock and 9.63% of its common stock.

minority interests in the equity securities of its five subholding company subsidiaries.

The equity securities (preferred and common) of the subholding companies owned by Bond and Share have a stated value on the books of such companies of approximately $456,000,000, after adjustment is made for accumulated dividend arrears on preferred stocks. These securities constitute the following percentages of the outstanding equity securities of each subholding company: *125/*

	Preferred Stocks	Second Preferred	Common	% of Voting Power of Securities Owned By Bond and Share to Total Voting Power
American & Foreign Power Co.	9.19%	83.11%	42.28%	42.28
American Gas and Electric Co.	—	—	18.90%	17.51
American Power & Light Co.	2.93%	—	31.17%	20.70
Electric Power & Light Corp.	.06%	18.49%	57.26%	46.83
National Power & Light Co.	—	—	46.56%	46.56

The preferred stocks of American & Foreign Power Company, Inc., and the second preferred stock of Electric shown in the foregoing table are, however, non-voting securities, and consequently do not contribute to the voting power held by Bond and Share. The fact is that the *voting securities* of its subholding companies owned by Bond and Share have a stated value on the books of these companies in the amount of only $53,337,600, after adjustment for preferred arrearages, equal to approximately 1.85% of combined consolidated capitalization of the five subholding company systems.

125/ In addition to the aggregate amount of equity securities set forth in the text, the subholding companies had outstanding (as of December 31, 1941) substantial amounts of debt securities. Of these, Bond and Share owns $37,900,000 of debt securities of American & Foreign Power Company, Inc. In addition, it owns debt securities of subsidiaries of the various subholding companies in the principal amount of approximately $82,000,000.

Although the securities of the subholding companies owned by Bond and Share in no case give Bond and Share a clear majority of the total voting power (and in the cases of American Power & Light Company and American Gas and Electric Company equal only 20.70% and 17.51% respectively), no question has been raised as to Bond and Share's effective control of each of the subholding companies with the sole exception of American Gas and Electrict Company. As to the latter, in a separate proceeding, *126/* we concluded we could not find, as requested by American Gas and Electric Company, that its management or policies are not subject to "a controlling influence" by Bond and Share within the meaning of Section 2(a) (8) of the Act. With respect to the four other subholding companies, the record of the present proceeding establishes that Bond and Share's control is complete and pervasive.

This control of the subholding companies by Bond and Share is not limited in operation to the mere casting of a certain percentage of votes at stockholders' meetings. It permeates every stratum and unit of the holding company system in the most comprehensive manner. *127/* For example, as will be recalled from our discussion in the previous section, the officers and entire personnel of each of the four subholding companies (other than American

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126/ *American Gas and Electric Company*, Holding Company Act Release No. 2749 (9 S.E.C. 247).

127/ This discussion relates primarily to the four subholding company subsidiaries other than American Gas and Electric Company. The latter was never a party to the present proceeding, since its status as a Bond and Share subsidiary was not determined at the time the proceeding was instituted. Moreover, as appears from the facts set forth in the Matter of American Gas and Electric Company (Holding Company Act Release No. 2749), the relations of Bond and Share to American Gas and Electric Company have always differed in important respects from Bond and Share's relations to the four other subholding companies.

Gas and Electric Company) are all trusted former employees of Bond and Share who had rendered Bond and Share long years of faithful service. The offices of the subholding companies are contiguous with those of Bond and Share in the Bond and Share office building at 2 Rector Street, New York City. All of the operating company subsidiaries of the subholding companies operate under service contracts with Bond and Share's wholly-owned service subsidiary, Ebasco Services Incorporated, whose extensive personnel and offices are also integrated with those of Bond and Share and the four subholding companies at 2 Rector Street. *128/*

Despite their unquestionable significance in the "control" picture of the Bond and Share system, however, it must be recognized that the factors described above are essentially the media by which Bond and Share *implements* its control; the control itself basically stems, as we have said, from its ownership of voting securities of the subholding companies. Through the concentrated voting power of the securities owned by Bond and Share, it is able to elect the directors of the subholding companies, and thus govern selection of the respective managements. *129/* Through the

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128/ The importance of Ebasco Services Incorporated as an agency for keeping the activities of the operating companies of the system under close scrutiny may be judged from the fact that while Bond and Share and each of the subholding companies has a staff of 20 to 25 employees, consisting mainly of the officers and clerical assistance, Ebasco Services Incorporated has a staff of 630 employees in its United States Division and 156 employees additional in its foreign division, consisting mainly of professional personnel such as accountants, analysts, and engineers.

129/ As indicated by the following table, at all stockholders' meetings held since 1935 by each of the four subholding companies, the percentage of votes cast by Bond and Share has been considerably greater than the proportionate voting power of the securities owned by Bond and Share.

managements of the subholding companies it is able to govern selection of the directors and managements of each of the operating company subsidiaries of each of the subholding companies. *130/* The latter are in turn responsive to Bond and Share's wishes respecting entry into service contracts with Ebasco Services Incorporated, and the details of the operations of their companies.

Thus, it is clear that through ownership of voting securities having a stated value on the books of the subholding companies (after adjustment for preferred arrears) of approximately $53,337,600 or 1.85% of total combined consolidated capitalizations of the five subholding company systems, Bond and Share is vested with so high a degree of voting power as to render completely ineffectual whatever voting power remains for the securities in the hands of

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	% of Voting Securities Owned by Bond and Share to Total Voting Power	% of Votes Cast By Bond and Share (average for period 1935-1941)	% of Votes Cast by Management Proxy Committee (including Bond and Share)
American Power & Light Co.	20.70	36.96	99.99
American & Foreign Power Co., Inc.	42.28	79.12	99.87
Electric Power & Light Corp.	46.83	74.90	99.93
National Power & Light Co.	46.56	66.04	99.97

The foregoing figures do not give effect to votes cast by companies and individuals presently or formerly affiliated with Bond and Share. It will be noted that although in the case of American, Bond and Share securities cast less than a majority of the votes, the management proxy (which represented Bond and Share) cast an average of 99.99% of the votes at all stockholders' meetings throughout the entire period.

130/ The subholding companies with but few minor exceptions own more than a clear majority of the voting securities of their subsidiaries. The presidents of the subholding companies testified that they deem it part of their duties to "advise" as to the selection of the directors and officers of their subsidiaries.

the public investors who have contributed more than $2,313,500,000 *131/* or 80.1% of such capitalizations.

Even these figures, moreover, do not measure the full inequity of the voting power distribution among the security holders of the Bond and Share system, since they are based on the assumed validity of the entries on the books of system companies, without adjustment for known write-ups and deficient depreciation reserves. The effect of such adjustments is indicated in the following paragraphs and in appendices E-1 and F-1.

Moreover, consideration of the comparative voting strength of the holding company and the public based on the book values represented by their respective securities is of course subject to further qualification in a case such as this, where, as our earlier discussion establishes, substantial portions of Bond and Share's holdings in the subholding companies were obtained gratis as a result of methods of financing employed at organization. Nevertheless, even without reference to this factor, the gross maldistribution of voting power is patent.

2. American and Electric Aspects

It is evident from the foregoing discussion that the unfair and inequitable distribution of system voting power which vests control of the system in Bond and Share through its ownership of subholding company voting securities representing at best 1.85% of the combined consolidated capitalizations of the subholding company systems (without adjustment for write-ups and deficient re-

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131/ This figure is after adjustment for cumulative dividend arrearages and after deduction of all securities of system companies owned by Bond and Share aggregating $576,013,000 principal amount or stated value as adjusted. As was previously stated, the aforementioned total of $576,013,000 is equivalent to approximately 19.9% of the total capitalization of the system, including debt securities and book surplus.

serves) results from, and exists by virtue of, utilization of the subholding companies as effective pyramiding devices within the Bond and Share system. The historical survey set forth in the preceding section hereof established that it was precisely for this purpose that American and Electric (as well as the other subholding companies) were created by Bond and Share. Consideration of the mathematical equations operative at the present time makes clear the manner in which American and Electric presently function as instrumentalities for effectuating and perpetuating the inequitable distribution of voting power in the Bond and Share system.

a. American

The total capitalization (including long term debt and surplus) of the subsidiaries of American is $729,143,155. If the integrity of these figures as they appear on the books of the respective subsidiaries be taken for granted, it follows that a total of $729,143,155 has been contributed to the companies of the American system by their security holders, including in such amount the sums left to accumulate in surplus accounts by the common stockholders. Based on the book values on issuer's books, the securities owned by American in its subsidiary companies had a book value of $303,837,930 or approximately 41.67% of the total capital (including surplus) contributed by all the security holders to the companies of the system.

We have previously pointed out, however, that the integrity of book figures of American's subsidiaries is refuted by evidence in the record pointing to vast amounts of system "write-ups" placed on the books of these subsidiaries by American and Bond and Share. If the apparent system write-up in each of these companies, as indicated in the present record, be deducted from the underlying book value

of the securities owned by American, it appears that the securities owned by American represent an interest of only 21.41% in the capitalization of American's subsidiaries. (See Appendix E-1.) Moreover, since the foregoing figures are based on the assumed validity of surplus accounts on the books of the subsidiaries, the record indicates that substantial further adjustment may be necessary because of the probable inadequacy of the reserves for retirements on the books of these companies. If such inadequacy be measured for present purposes by comparison with amounts allowed or claimed for Federal income tax purposes, *132/* the securities owned by American would represent only 4.75% of the capitalization of the subsidiaries as

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132/ The aggregate difference between book accruals and the amounts claimed or allowed to the subsidiaries of American for depreciation for Federal income tax purposes is $94,800,000 as shown in Appendix E-2. Concededly this is not to be deemed a conclusive figure. However, as we recently had occasion to point out (Matter of the United Corporation, Holding Company Act Release No. 3592) depreciation figures for income tax purposes frequently have been found helpful in determining the adequacy of depreciation for corporate purposes, and some authorities are of the view that in general "the income tax basis should be accepted rather than the book figures." We recently (June 15, 1942) made public a detailed report submitted to us by our Public Utilities Division entitled "Depreciation and Dividend Statistics of Electric and Gas Utility Subsidiaries of Registered Holding Companies, 1930-1940," in which, on the basis of the Division's study, it is stated that ". . . it is believed that the depreciation allowed for income tax purposes in the case of public utility companies constitutes a generally conservative and satisfactory criterion of the adequacy of the depreciation actually recorded on the books of such companies. . . ." It may be noted that in the same report a 10-year study of 168 subsidiaries of 30 public holding company systems discloses that book accruals for depreciation were smallest relative to depreciation for tax purposes in the case of the subsidiaries of American, out of the entire group of 30 holding company systems (Cf. n. 107 *supra.*)

adjusted on this basis. Nor does even this figure represent the smallest possible equity of American in the capitalization of its subsidiaries, because it makes no allowance for items in large amount, representing excess of system cost over original cost (classifiable as Electric Plant Acquisition Adjustments, Account 100.5) contained in the plant accounts of American's subsidiaries, as to which the uniform system of accounts of the Federal Power Commission provides that such items be "depreciated, amortized or otherwise disposed of" as the regulatory authority may require. *133/*

When the capital structure of American is considered as part of the structure of the holding company system of Bond and Share, by virtue of the introduction of the pyramiding factor and basic inequity of voting power which exists among the security holders of the American system is magnified manifold among the security holders of the American—Bond and Share system. For, as shown by Appendix E-1, Bond and Share is vested with effective control of the system through ownership of common and preferred stock of American equal to 3.68% of American's capitalization, (including surplus) which represent an interest of only 3.42% in the total capitalization of American's

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133/ The Federal Power Commission's System of Accounts for public utility operating companies is applicable to most of the subsidiaries of American and Electric, either by virtue of its having been adopted by the various state commissions as members of the National Association of Railroad and Utility Commissions, or by virtue of the application of our Rule U-27 prescribing such system for the subsidiaries of registered holding companies not subject to state commission's regulations. The Federal Power Commission has ordered that sums classifiable in Account 100.5 be removed from plant account, and charged against surplus or amortized. (Matter of *St. Croix Falls Minnesota Improvement Company*, F. P. C. Opinion No. 72.)

subsidiaries *before* adjustment for write-ups and depreciation. *134/*

On the basis of the foregoing figures, it is apparent we must find that voting power is unfairly and inequitably distributed among the security holders of the American system, and among the security holders of the American-Bond and Share system: *135/* and that accordingly the continued existence and capital structure of American unfairly and inequitably distribute voting power among security holders of the Bond and Share system.

b. Electric

The total capitalization (including long term debt and surplus) of the subsidiaries of Electric is $653,981,088. If the integrity of these figures as they appear on the books of the respective subsidiaries be taken for granted, it follows that a total of $653,981,088 has been contributed to the companies of the Electric system by their security holders, including in such amount the sums left to accumulate in surplus accounts by the common stockholders. Based on the book values on issuer's books, the securities owned by Electric in its subsidiary companies had a book value of $256,415,384 equal to approximately 39.21% of the total capital (including surplus) contributed by all the security holders to the companies of the system.

As in the case of American, the integrity of book figures of Electric's subsidiaries is refuted by evidence in the

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134/ The effect upon Bond and Share's interest when adjustments are made for write-ups and depreciation is shown in Appendix E-1.

135/ Cf: *International Hydro-Electric System et al* (Holding Company Act Release No. 3679), *The Middle West Corporation* (Holding Company Act Release No. 3580), *The Commonwealth & Southern Corporation* (Holding Company Act Release No. 3432), *Electric Bond and Share Company* (Holding Company Act Release No. 2962).

record pointing to vast amounts of system "write-ups" placed on the books of these subsidiaries by Electric and Bond and Share. If the apparent system write-up in each of these companies, *136/* as indicated by the present record, be deducted from the underlying book values, it appears that the securities owned by Electric represent an interest of approximately 32.72% in the capitalization of Electric's subsidiaries. (See Appendix F-1.) Moreover, the record indicates that substantial further adjustment may be necessary because of the probable inadequacy of the reserves for retirements and depletion on the books of these companies. If such inadequacy be measured for present purposes by comparison with amounts claimed or allowed for Federal income tax purposes, *137/* the securities owned by Electric would represent only 15.65% of the capitalization of the subsidiaries as adjusted on this basis. Nor does even this figure represent the smallest possible equity of Electric in the capitalization of its subsidiaries, because it makes no allowance for large amounts classifiable as Electric Plan Acquisition Adjustments, Account 100.5 contained in the plant accounts of Electric's subsidiaries with respect to which, as previously stated, the applicable Systems of Ac-

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136/ Exclusive of any system "write-ups" existing with respect to the United Gas Corporation as to which we make no comment for the reasons set forth earlier herein.

137/ The aggregate difference between book accruals and the amounts allowed to or claimed by the subsidiaries of Electric for depreciation and depletion for Federal income tax purposes is approximately $121,000,000 as shown in Appendix F-2. Concededly this is not to be deemed a conclusive figure. See footnote 132 *supra*. It may be noted also that of the $121,000,000 figure referred to in the text, approximately $80,000,000 is applicable to United Gas Corporation, as to which special tax provisions regarding gas production properties may make somewhat less appropriate the comparison between book figures and tax figures.

counts provide for amortization, depreciation, or other disposition as directed by the regulatory authority. *138/*

As in the case of American, when the capital structure of Electric is considered as part of the structure of the holding company system of Bond and Share, introduction of the pyramiding factor magnifies greatly the basic inequity of voting power distribution among the security holders of the Electric system. For, as shown by Appendix F-1, Bond and Share is vested with control of the Bond and Share—Electric system through ownership of common and preferred stock of Electric equal to 9.14% of Electric's capitalization, which represent an interest of only 8.72% in the total capitalization of Electric's subsidiaries *before* adjustment for write-ups and depreciation and depletion. *138A/*

On the basis of the foregoing figures, it is apparent we must find that voting power is unfairly and inequitably distributed among the security holders of the Electric system and among the security holders of the Electric-Bond and Share system; *139/* and accordingly that the continued existence and capital structure of Electric unfairly and inequitably distribute voting power among security holders of the Bond and Share system.

B. *Complexity*

Not only are the continued existence and corporate structure of American and Electric offensive to the voting power distribution standards of Section 11(b) (2), but we find that these companies also contribute in substantial measure to the undue and unnecessary complexity which exists in

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138/ See footnote 133, *supra*.

138a/ The effect upon Bond and Share's interest when adjustments are made for write-ups and depreciation is shown in Appendix F-1.

139/ See note 135, *supra*.

the Bond and Share system in contravention of that section. It is evident that both results follow from the basic circumstance that these companies constitute pyramiding devices, and that such results are in effect reverse sides of the same coin.

A glance at a corporate chart of the Bond and Share system *140/* conveys an impression of relative simplicity which is wholly delusive. In general outline there appears the top holding company on the first level, the subholding companies on the second level, and the subsidiaries of the latter on a third level, ranged in a pattern conveying a sense of the symmetrical and neat.

When this ostensibly simple pattern is brought into sharper focus, however, it is found to be interlaced with numerous complexities repugnant to the statute. Thus, it becomes apparent that each of the major corporate units at the base of the system itself has a complex capital structure in which the principals of pyramiding and leverage are employed in very full measure. Upon each such corporate structure there is superimposed a holding company with a complex structure of its own, and in turn, upon this holding company there is superimposed still another holding company having its own unduly complex structure, a high degree of pyramiding being employed in the process of superimposition. This situation exists as to more than 200 operating units in the Bond and Share system, *141/* and in some instances additional layers of holding companies are interposed beyond those found in the normal pattern. *142/*

140/ See Corporate chart set forth in Appendix A.

141/ As has been stated above, Bond and Share's subholding company subsidiaries have 237 direct and indirect subsidiaries.

142/ For example, The Montana Power Company, a subsidiary of American, in turn has two subsidiaries named Glacier Production Company and Great Falls Townsite Company. The Glacier Production in turn has a subsidiary called Inland

To render this situation concrete, we have set forth in graphic form as Appendices B-1, B-2 and B-3, a series of charts which show the source of income of Bond and Share, American and Electric for the year 1940, giving effect to the capital structures of the subholding and operating companies. From an examination of these charts, it is evident that although ostensibly the system is comprised of only *three* levels, nevertheless, income derived from the basic functions of the system, namely the generation and sale of electric energy and gas, cannot reach the common stockholders of the top holding company until it has been filtered through *seven to fourteen* classes of securities having prior claims to such earnings.

This multiplicity of steps obviously in itself creates a formidable problem for an investor in the securities of Bond and Share or the subholding companies seeking to appraise the earnings power of his securities. The problem is, of course, greatly intensified by the fact that the system income does not progress in a straightforward continuous line from step to step until the top level is reached, but is drawn off and co-mingled at the level of the subholding companies with income from all the subsidiaries of each of the subholding companies, and there diverted to meeting the requirements of the security structures of the subholding companies. In the case of three of the five subholding companies (American, Electric and American & Foreign Power Company, Inc.), the corporate structures are so ill-balanced that for the last 10 years dividends on preferred stocks have accumulated each year, and these ac-

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Empire Refineries, Inc., which in turn has two subsidiaries Moen-Leick Industries, Inc., and Chief Petroleum Company, Inc. None of these are utility subsidiaries as defined in the statute, but nonetheless, they serve to complicate the system structure. Similar examples to the foregoing are found throughout the system.

cumulated arrearages now constitute mountainous barriers athwart the flow of system income to the top level. *143/*

Furthermore, the problem of income appraisal is acutely complicated when viewed from its dynamic rather than its static aspects, in appraising the effects of changes and shifts of income. Where the investor is required, as is here the case, to evaluate the future earnings prospects of securities resting near the top of a pyramided structure, he is confronted with the almost impossible task of measuring the magnified impact of income changes at the lower levels of the structure upon those higher in the pyramid resulting from the sharp leverage factor of hyper-attenuated equities. *144/*

All the foregoing factors, of course, come into play as well in the appraisal of the asset value of the securities of Bond and Share and the subholding companies and serve to complicate the problems of appraisal beyond the limits of even the sophisticated investor. We ourselves in the past, in the performance of our statutory duties, have had occasion to attempt such an appraisal with respect to the preferred stock of Bond and Share and have been obliged to avow our inability to reach any meaningful result. *145/*

143/ Preferred dividend arrears of American and Electric are discussed *infra*.

144/ This leverage factor is also reflected in wide gyrations and instability of *market prices* of the securities of Bond and Share and the subholding companies, as is indicated by the tables showing market prices of these securities during the past decade (Appendices I, J, K).

145/ In an Opinion issued approximately one year ago we stated:

> "The extreme difficulty of assigning a specific value to the assets of Bond and Share at the present time is due to several causes. It is due in part to the situation of Bond and Share as the top holding company of an extremely pyramided holding company structure, with the result that developments affecting the values and earnings of the operating utility companies at the base of the pyramid are

In respect of the complexities of the Bond and Share system, it is evident that American and Electric, constituting as they do central tiers in the system pyramid, are necessarily major contributing factors. In our earlier Findings

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very sharply magnified in their effects on Bond and Share's own securities. Thus Bond and Share's investments consist chiefly of equity securities of five subholding companies, which in turn have an aggregate of over 240 subsidiaries. When it is realized that most of these companies, subholding companies and operating companies alike, have senior securities outstanding, that three of the subholding companies and many of the subsidiary companies have substantial preferred arrearages, that a large number of the subsidiaries operate in foreign countries as to which problems of currency values and exchange restrictions are present, and that Bond and Share is merely a minority (although controlling) stockholder in all of the subholding companies, some measure of the difficulty of appraising Bond and Share's assets appears.

"In large measure, moreover, the practices employed in the Bond and Share system prior to the enactment of the Public Utility Holding Company Act contribute to the difficulties of valuation. For example, our records indicate numerous instances of inflation of balance sheet items, questionable depreciation policies, and intercompany security and property transfers without the safeguards of arm's-length bargaining and apparently, in some instances at least, without due regard for the interests of other security holders. Many of these practices will necessitate various adjustments in the future which may affect the valuation of Bond and Share's assets, but the exact nature and scope of such adjustments can be determined only after further scrutiny of all pertinent facts.

"There are now pending before this Commission three separate proceedings involving major subsidiaries of the Electric Bond and Share system, which deal with problems of this kind. These proceedings relate respectively to United Gas Corporation, Florida Power & Light Company, and Pennsylvania Power & Light Company. Until their termination it is of course impossible to state what the precise outcome may be as affects the assets or revenues of Bond and Share. As previously stated, there are numerous similar problems with respect to other com-

and Opinion respecting National, we summarized the matter thus:

"In the matter of Columbia Gas & Electric Corporation (1941) Holding Company Act Release No. 2477, we pointed out that the continued existence of any unit which serves no useful purpose 'may well be considered, on any functional basis, to complicate unduly and unnecessarily *the structure*' of a holding-company system. There, however, we were speaking merely of certain inactive subsidiaries at the base of a holding-company system. It is evident that where, as in the case of National, the unit in question constitutes a major tier in a pyramided holding-company structure, the complicating effects of its continued existence are not only sharply magnified but are malignant rather than passive in character. Thus, by virtue of the continued existence of National (and to some extent, of its corporate structure) we find all the familiar complexities stemming from a pyramided holding-company system: wide gyrations in the market price and earning power of the securities of National and Bond and Share due to the sharp leverage factor deriving from their attenuated equity position; *146/* increased

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panies in the system as the result of practices engaged in prior to the enactment of the statute. Even though no proceedings are pending, many of these problems are just as difficult—and the resulting uncertainties of valuation just as significant—as in the cases where proceedings are under way for their solution." (*Electric Bond and Share Company*, Holding Company Act Release No. 2979. All footnotes in the original text have been omitted.)

In respect of certain of the situations referred to in the above quotation, it would appear that problems of an equitable nature involving the principles of the "Deep Rock" cases may be applicable, (*Taylor* v. *Standard Gas & Electric Company* 306 U. S. 307; *Pepper* v. *Litton* 308 U. S. 295).

difficulty for the investors in the securities of National and Bond and Share to appraise the financial position of earning power of their securities; increased expense and loss of efficiency to the security holders of National and Bond and Share; pressure upon the operating companies at the base of the system to adopt unsound dividend policies on compliance with the demands of the overcapitalized superstructures of National and Bond and Share.

"These are among the complications which presently result from the continued existence of National. There can be no question that these constitute 'undue' complications within the statutory meaning, since most of them are expressly enumerated in the statute as among the very abuses against which it is directed. *147/* . . ."

As is to be expected, the record establishes that all the aforementioned complications which we found resulted from the existence and capital structure of National result to at least as great an extent from the continued existence and capital structures of American and Electric.

Moreover, we find that the corporate structures and continued existence of American and Electric produce certain complexities not found in the case of National, or found only in much milder form. In general, these are the complexities stemming from the extremely top-heavy capital structures of American and Electric *148/* which the earn-

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146/ Of course, in the case of Bond and Share the leverage results not only from its holdings of National's securities but also from those of the other subholding companies of the system.

147/ Section 1 of the Act.

148/ A glance at the senior security ratios of American and Electric, even without adjustment for known system write-ups

ings of these companies have for many years been unable to support. As is shown on Appendices J and K of these findings, neither American nor Electric has succeeded in earning sufficient to meet the dividend requirements of their preferred stocks in any calender year in the entire ten-year period from 1932 to 1941, inclusive.

In the case of American, dividends on the preferred stocks were curtailed at the end of 1932 and have been paid at only a fraction of the normal rate in every year there-

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indicates how top-heavy the structures of these companies are:

	Per Books		Including Pfd. Arrearages	
	Amount	% of total	Amount	% of total
American				
Debentures	$ 45,849,000	16.9	$ 45,849,000	16.9
Preferred	177,145,326	65.5	212,260,114	78.5
Common and surplus	47,499,285	17.6	12,384,497	4.6
Electric				
Debentures	30,380,000	15.8	30,380,000	15.8
Preferred	84,575,466	44.0	135,464,791	70.4
Common and surplus	77,337,511	40.2	26,448,186	13.8

It will be recalled that at the inception of American the company's investment account was inflated $5,500,000, and that at the inception of Electric, inflation in investment account was approximately $46,600,000. If adjustment were made in the tables set forth above to eliminate these system write-ups in the investment accounts of the subholding companies, the results would be as follows:

	Per Books, Less write-up		After Elimination of Write-up and Including Pfd. Arrearages	
	Amount	% of total	Amount	% of total
American				
Debentures	$ 45,849,000	17.3	$ 45,849,000	17.3
Preferred	177,145,326	66.8	212,260,114	80.1
Common and surplus	41,999,285	15.9	6,884,497	2.6
Electric				
Debentures	30,380,000	20.9	30,380,000	20.9
Preferred	84,575,466	58.0	135,464,791	92.9
Common and surplus	30,737,511	21.1	(20,151,814)	(13.8)

( ) Indicates red figure.

after. Accordingly, arrearages on the preferred stocks have mounted year by year to the point where they now exceed, as has been pointed out, 3-1/2 years' requirements; and the passage of each year serves merely to render this situation more acute. *149/* In the case of Electric, dividends on the first and second preferred stocks were suspended in 1932 and were never resumed on the second preferred stock; fractional payments were made, however, on the first preferred stocks in 1940 and 1941 at the rate of 5% and 20%, respectively of the full rate. As has previously been pointed out, the accumulation of arrearages on Electric's first preferred stock now equals more than 9 years' requirements, and on the second preferred stock more than 10 years' requirements. *150/*

These mounting accumulations of arrearages have, of course, produced a continuously declining market price for the common stocks of both American and Electric; and significantly, as dividend arrearages in the preferred stocks of American and Electric have piled up, the market prices of these securities also have declined and now stand at their lowest levels since the enactment of the Public Utility Holding Company Act of 1935. *151/*

149/ Even when the earnings of American are consolidated with those of its subsidiaries, it is found that preferred dividend requirements were not earned in six out of the last ten years. In the case of Electric, first preferred dividends were not covered on a consolidated basis in six years during the 10-year period. We have previously had occasion to refer to the dangers of employing consolidated income figures in measuring the earnings available for securities of a parent company.

150/ See Appendix K.

151/ Where preferred stocks have dividend arrearages which are due to some temporary cause, such stocks frequently sell at a premium representing their augmented claims in liquidation and to future earnings. Where, as in the cases of American and Electric, increased arrearages are accompanied by in-

Nor are the complicating effects of these arrearages confined solely to the subholding companies, but it is apparent that they extend upward to Bond and Share, blocking the flow of income, *152/* complicating the task of asset valuation, and depressing the market prices of its securities. *153/*

It is evident from the foregoing earnings and market valuation figures that wholly apart from the standards of

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creasingly depressed market prices, it is evident that the markets view the underlying situation in a highly unfavorable light.

As is indicated in Appendix K, at the present time the first preferred stocks of Electric (having dividend arrearages of more than $55 and $65 per share and a liquidating value of $100 plus accumulated arrears) sell at about $19-1/2-$22 per share; the second preferred stock ($100 liquidating value and about $72 of dividend arrears) at about $4 per share, and the common stock at about $1-$1-1/2 per share. American's $5 and $6 preferred stock (having a liquidating value of $100 and accumulated dividend arrears of more than $18 and $22 per share) sell currently for about $14-1/2 and $16 per share respectively, and the common stock is traded at about 50 to 75 cents per share.

152/ Although the preferred stocks of Bond and Share are not in arrears of dividends, it is manifest that the company has been struggling for some time with the problem of supporting its capital structure with its dwindling income. In our Findings and Opinion issued last February in a proceeding relative to Bond and Share's request to be permitted to repurchase its preferred stock on the open market at prevailing depressed prices, we pointed out that "the record indicates some doubt that Bond and Share will cover its preferred dividend requirements for the year 1942 out of current earnings." (Electric Bond and Share Company, Holding Company Act Release No. 3339.)

153/ Bond and Share's $6 and $5 preferred stocks (having a liquidating value of $100 per share plus accumulated dividends) are selling at about $44 and $40 per share, respectively, although dividends have thus far been paid at the normal rate. As shown by Appendix I, Bond and Share's common stock has for some time sold in the neighborhood of $1 per share. In 1929 this stock sold for as high as $189 per share.

the Act, American and Electric are companies suffering from deep-seated maladies, the effects of which are communicated to the entire system of which they form a part. In terms of the statute, these maladies are expressed as additional and undue complexities within the meaning of Section 11(b) (2).

Moreover, as is established by the historical survey set forth in an earlier section of this Findings and Opinion, it is indisputable that American and Electric are not only *undue* complexities but are wholly *unnecessary* ones, inasmuch as there is not now, nor has there ever been, reason or purpose for their existence except as instrumentalities through which Bond and Share is able to control their systems by a pyramiding arrangement wholly repugnant to the statute. Neither for their subsidiaries nor for their own investors do these subholding companies perform, or have they ever performed, any useful function; indeed for the latter, they entail unnecessary expense *154/* and serious complications from an investment point of view in respects indicated above. It is to be noted, furthermore, that the increased taxes and operating costs which must be borne by the subholding companies and their subsidiaries by reason of the present war will necessarily aggravate the financial difficulties of American and Electric,

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154/ The operating expenses of American for the year 1941 aggregated approximately $764,480, which included a salary of $50,000 for the president of the company, $12,000 for the vice-president, and $53,712 additional for other salaries. In addition, the company paid $346,263 as federal taxes, franchise and other state taxes aggregating $20,000, all of which presumably would be saved for the stockholders of American if the company's income were received directly by them rather than through the company. The operating expenses of Electric for the year 1941 aggregated approximately $359,239 which included a salary of $49,375 for the president of the company, $9,396 for the vice-president and $54,205 additional for the salaries of other employees. In addition, the company paid $19,429 as state taxes and $110,003 as federal taxes.

and render their continued existence even more burdensome to their subsidiaries and security holders.

C. *Appropriate Remedy Under the Act*

It is established by the foregoing discussion that (1) the capital structures of American and Electric are unduly and unnecessarily complicated and that voting power is unfairly and inequitably distributed among the security holders of the American and Electric systems; (2) the corporate structures and continued existence of American and Electric unduly and unnecessarily complicate the holding company system of Bond and Share and unfairly and inequitably distribute voting power among the security holders of the Bond and Share system.

It is our duty under the statute to require that American and Electric shall take such steps as we find *necessary to ensure* 155/ that the corporate structure and continued existence of these companies shall no longer unduly and unnecessarily complicate the structure of the Bond and Share system and unfairly and inequitably distribute voting power among the security holders thereof. The action we must order to be taken is such as seems to us calculated to achieve this result most effectively and quickly, ever bearing in mind the stated policy of the Act to provide *as soon as practicable* for the elimination of all holding companies except as expressly provided in the Act. 156/

155/ Cf. *Jacksonville Gas Company et al,* Holding Company Act Release No. 3570; *The Commonwealth & Southern Corporation,* Holding Company Act Release No. 3432.

156/ Cf. *International Hydro-Electric System et al,* Holding Company Act Release No. 3679; *Standard Power and Light Corporation,* Holding Company Act Release No. 3607; *Electric Bond and Share Company et al,* Holding Company Act Release No. 2962; *North American Light and Power Company,* Holding Company Act Release No. 3233; *The United Light and Power Company,* Holding Company Act Release No. 2636 (8 S. E. C. 837).

In the light of all our findings above set forth, it is apparent to us that appropriate action to be required of American and Electric consonant with the statute is their prompt dissolution. While some measure of amelioration in their statutory offensiveness might be afforded by other approaches, in our opinion no approach presently available holds out the promise of effectuating the statute's requirements fully or promptly. The basis for this opinion is apparent from our discussion in the following section and need not be elaborated here.

It cannot be doubted that the dissolution of these companies which not only have never served any useful purpose but have been a medium of much harm, will effectuate the provisions and policies of the Act and will in all respects be beneficial to the public interest and the interest of investors and consumers; and we so find.

Before arriving at our definitive conclusion, however, we turn to accord consideration to the contention of respondents' counsel that the pendency of the 11(e) Plans of American and Electric constitutes a barrier to the entry by us of an order requiring the dissolution of those companies. This subject is treated in the following section.

VI. Contentions of respondents respecting the 11(e) plans

A. *Nature of the Argument*

Mention has previously been made of the fact that on July 23, 1941, American, and on December 4, 1941, Elec-

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Section 1 (c) of the Act states that:

". . . it is hereby declared to be the policy of this title in accordance with which policy all the provisions of this title shall be interpreted, to meet the problems and eliminate the evils as enumerated in this section . . . and for the purpose of effectuating such policy to compel the simplification of public-utility holding company systems and the elimination therefrom of properties detrimental to the proper functioning of such systems, and *to provide as soon as practicable for the elimination of public-utility holding companies except as otherwise expressly provided in this title.*" (Italics supplied.)

tric, filed with us documents termed "applications under Section 11(e)" for approval of "Plans to Enable (the) Company to comply with subsection (b) of Section 11 of (the) Act". At the time these documents were filed, hearings had been in progress in the 11(b) (2) proceedings for more than a year, and the record as to both American and Electric was approaching completion. *157/* As we have noted in December 1941, motions were made by counsel for American and Electric to consolidate the 11 (e) plans with the present proceeding, but by agreement of counsel for the companies and the Public Utilities Division such motions were held in abeyance until completion of the record in the 11(b) (2) proceeding, and have been presented for our determination together with the record of the proceeding. *158/*

As we have already indicated, counsel for American and Electric have contended that the pendency of these "plans" constitutes a barrier to our issuance of an order requiring the dissolution of these subholding company respondents, and it is evident that this was one of the reasons for filing the plans. *159/*

157/ Despite the time which has elapsed since the filing of the American plan, a total of only 19 days of hearings has taken place with respect to American subsequent to the filing and a total of 19 days of hearings has taken place since the filing of the Electric plan.

158/ See our ruling on such motions at Section II of this Findings and Opinion, *supra*.

159/ It is to be noted that the minutes of the board of directors of American reveal that at a meeting held April 23, 1941, the president of American reported to the board concerning the progress of his cross-examination in the present proceeding by counsel for the Public Utilities Division, and estimated that such cross-examination would be completed in about 60 days' time. The minutes reveal that the president's estimate of the time wl ch remained was confirmed by the company's counsel who was present at the meeting, and who advised the directors that "a peremptory order of dissolution was a

This contention of respondents is apparently based on the following line of reasoning: In view of the fact that the 11(e) plans of American and Electric purport to set forth programs whereby both companies may be brought into conformance with the Act, the Commission must permit a record to be made with respect to these plans before it will be in a position to pass upon the pending issue in the 11(b)(2) proceeding. This, it is urged, follows from the fact that the stated issue in the present proceeding is *whether it is necessary* to require the dissolution of American and Electric in order to effectuate the provisions of Section 11(b)(2), and the Commission cannot resolve this issue in the affirmative at the present time by finding dissolution *necessary*, if it may be shown that the 11(e) plans of American and Electric in fact provide an alternative for the attainment of the statutory objectives. Accordingly, in order to ascertain whether the 11(e) plans may be approved by us as "necessary to effectuate the provisions of subsection (b) [of Section 11] and fair and equitable to the persons affected by such plan," *160/* evidence relative to these issues must be adduced and a record made. *161/*

We are of the opinion that this reasoning rests on fallacious premises, stemming primarily from respondents'

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contingency which should be faced and which the company should be prepared to meet, if it should occur". Counsel then advised that the directors give consideration to the formation of a plan or plans for the company in the light of those facts.

160/ Section 11(e) of the Act provides in part that:

> "If, after notice and opportunity for hearing, the Commission shall find such plan . . . necessary to effectuate the provisions of subsection (b) and fair and equitable to the persons affected by such plan, the Commission shall make an order approving such plan. . . ."

161/ As was noted earlier (Section II, *supra*) evidence concerning valuation was offered by respondents and properly excluded by the examiner.

misconstruction of the word "necessary" as used in Section 11 of the Act and in our definition of the issue in the present proceeding. *162/*

We regard as wholly untenable respondents' contention that in carrying out our duties under Section 11 we cannot find "necessary" a course of action for which some alternative may be present, since such a construction would lead to the result that we should be rendered impotent to order *any* action where several courses of action appeared available to achieve the statutory objectives. On the basis both of plain logic and the basic principles of statutory construction, we deem it indisputable that the steps or action we must find "necessary" within the meaning of Section 11 are such as seem to us designed to *ensure* effectuation of the provisions of the Section *most effectively and promptly. 163/*

B. *Considerations Bearing on the Plans*

An examination of the 11(e) plans of American and Electric has convinced us that they will certainly not effectuate the statutory requirements promptly. Furthermore it is evident that in their present form and under existing circumstances the plans hold out no real promise of effectuating such requirements at all.

162/ It will be recalled that by our Order of June 7, 1940 (See Holding Company Act Release No. 2099, 7 S. E. C. 391), we limited the various issues set forth in our Notice and Order for Hearing to the initial issue of whether the dissolution of the subholding companies is necessary to effectuate the provisions of Section 11(b).

163/ Compare our opinion in *The Commonwealth and Southern Corporation,* Holding Company Act Release No. 3432, where we found it was necessary to order that the respondent corporation be reduced to a single class of stock because this was "the most *efficient and effective* way of ensuring attainment of the statutory objectives", and referred to the "*unwarranted delay* in carrying out the legislative mandate" which would result from following a course of procedure urged by the respondents.

With respect to the former point, that of promptness, it need only be considered that it would be necessary for respondents and the Public Utilities Division to formulate and present, and for us to explore, detailed and very extensive evidence on a number of extremely complex subjects before it would be possible for us to determine even the preliminary question of whether the 11(e) plans do in fact constitute acceptable alternative courses of action for achieving the objectives of Section 11. In the event it were necessary to determine the question in the negative, presumably we should be free (even under respondents' contention) to enter our order of dissolution herein following the lengthy delay, unless respondents in the meantime proposed a new 11(e) plan which would necessitate a repetition of this process. On the other hand, in the event we were ultimately able to approve the plans, they would still not become effective unless and until ratified by vote of the companies' stockholders. *164/*

Considering that seven years have now gone by since the effective date of the Act, that four and one half years have elapsed since the date after which action under Section 11 was to be required "as soon as practicable", and that more than two years have been consumed since the present

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164/ American's plan states "If approved by (the) Commission, the Plan will be offered to stockholders merely as a recommendation for their consideration or rejection in discharge of what the Directors conceive to be their duty, to propose what seems to them the best solution of a difficult problem." The plan specifically states that it is not to become effective unless 90% of each class of preferred stock and a majority of the common stock shall affirmatively vote to accept it.

Electric's plan does not provide what vote of the various classes of securities will be necessary but merely stated "Upon consideration and final approval by the Commission of the Plan, including any amendments proposed and adopted, the Board of Directors will call a stockholders' meeting with the stated objective of submission of the Plan for approval and appropriate action."

proceeding was instituted, it is evident that respondents' program is too fraught with potentialities of delay to be acceptable as a substitute for a dissolution order to meet the problems existing under Section 11(b) (2). *165/* Section 11(e) which provides a medium for voluntary compliance with Section 11(b) was not intended to oust the Commission of its jurisdiction, or relieve it of its obligation, to enforce the provisions of 11(b).

Turning now to the question of whether, regardless of the time factor, the 11(e) plans of American and Electric in their present form hold out real promise of effectuating Section 11 at all, we shall summarize our views under two heads: (1) incompleteness; and (2) ineffectiveness.

(1) Incompleteness.

We do not deem it necessary to undertake here a detailed discussion of the provisions of the 11(e) plans of American and Electric. In essence they provide that each company will: (a) reorganize its capital structure by issuing a single class of stock to be distributed among its present stockholders "on such basis as shall seem fair, taking into consideration existing rights, values, and other relevant fact-

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165/ In *The Commonwealth & Southern Corporation*, Holding Company Act Release No. 3432, we were similarly confronted by an 11(e) plan that would have necessitated exploration of complex 11 (b) (1) and other problems, and it was similarly argued that the filing of such plan precluded us from entering our order in the 11 (b) (2) proceeding. We found this argument untenable, stating "indeed it would be clearly improper for us to decide that the filing of a voluntary plan precludes us from taking appropriate action in line with our mandatory duties under Section 11 (b)."

Prominent among the unacceptable features of the plan there involved was the time factor which impelled us to say "we do not feel at liberty to countenance the immeasurable and unnecessary delay that would result from our acceptance of Commonwealth's suggestion".

ors;" *166/* and (b) limit the operations of its holding company systems to such subsidiaries comprising "single integrated public utility systems" and incidental businesses as the company may be permitted to retain under the statute, and dispose of its holdings in the securities of all other subsidiaries. Thus, the plans purport to tender compliance with both Sections 11(b) (1) and 11(b) (2) of the Act.

On their very face these documents are lacking in a number of elements which would seem essential to constitute a true "plan" as the term is employed in Section 11(e). For example, neither plan makes provision for the number of shares of the new capital stock to be issued, the aggregate par value thereof, and most important, the manner and proportions in which such stock shall be allocated among the various classes of existing security holders of the companies. Neither plan, moreover, makes definite provision for the retirement of the outstanding debentures of the companies, both documents making such vague statements in that regard as to leave them lacking in any provision for debt retirement. *167/* With respect to the 11(b) (1) issues, although the "plan" of American asserts that the subsidiaries of American comprise six systems within the meaning of 11(b) (1), not more than one of which may be

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166/ The quoted language is from Electric's plan. The analogous language in American's plan as to the manner of allocation is: "these problems are left open for determination upon consideration of all equities and pertinent facts".

167/ With respect to the necessity of eliminating long-term debt from the structures of holding companies where the portfolio consists largely of common stocks and the underlying structures are themselves complex, in order to conform to the provisions of Section 11 (b) (2), see our Findings and Opinion in *The Commonwealth & Southern Corporation*, Holding Company Act Release No. 3432; *Cf. International Hydro-Electric System*, Holding Company Act Release No. 3679.

retained under our reiterated interpretation of clause (B) of 11(b) (1), *168/* the document omits to state which system American elects to retain. Furthermore, neither plan gives any specific indication whatever as to the manner and circumstances of disposing of the large amounts of portfolio securities as to which disposition would be necessary; nor does either plan advance a program for recapitalizing the subsidiaries to be retained, in order to eliminate write-ups and otherwise conform them to the standards of the Act. *169/*

The foregoing omissions are so serious in nature and so far reaching in scope that we have no doubt these documents in their present form could properly be dismissed by us upon appropriate notice to the respondents.

(2) Ineffectiveness.

Even if there were not missing from these documents the vital elements adverted to above, there would be serious question as to their effectiveness to achieve the result presumably intended by the respondents—namely, to provide an alternative method of removing American and Electric from the statutory condemnation which, we have found, necessitates their dissolution. Viewing these documents in their most favorable aspect as valid 11(e) plans, it is evident that they purport to provide merely for

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168/ American's plan states that "American Company claims the right to elect any two of the groups as the integrated systems which it is permitted to retain under the Public Utility Holding Company Act", but it was testified that this provision was inserted prior to the issuance of our Opinion in *Engineers Public Service Company* et al, Holding Company Act Release No. 2897 (9 S.E.C. 764) which would require limitation to the only one of the alleged systems.

169/ In the case of the American plan, the vagueness of the company's intentions is increased by numerous "reservations of right to modify" various provisions of the plan, including even "the right to propose complete liquidation" of the company.

some measure of simplification in the corporate structures of American and Electric, coupled with some reference to geographic integration requirements of Section 11(b) (1). While it is true that the complexities in the corporate structures of American and Electric are repugnant to the statutory standards, we have found that the existence of these companies as pyramiding devices in the Bond and Share system is one of their most important statutory offenses. To the problem of eliminating American and Electric as pyramiding devices in the Bond and Share system, the plans do not make even the slightest allusion. It may be conceded that as simplification is effected in the corporate structures of the subholding companies, some amelioration will be achieved in *the degree* of pyramiding which they produce in the system, but pyramiding may still exist through the medium of a subholding company which has only a single class of stock outstanding. Thus, if in the proposed recapitalization of American and Electric, Bond and Share should emerge with blocks of voting securities which in themselves or in conjunction with other factors would enable it to exercise control or a "controlling influence" in these companies within the meaning of Section 2(a) (8) of the Act, the reorganized companies will continue to be pyramiding instrumentalities and complexities within the Bond and Share system in violation of Section 11(b) (2). *170/*

In other important respects the plans as filed by American and Electric, even viewing them in the most favorable

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170/ It is noteworthy that counsel for respondents sought to introduce testimony in the 11 (b) (2) proceeding calculated to establish that American's assets have a present value *considerably higher* than their carrying value on the company's books.

The president of American specifically admitted on cross-examination that nothing in American's plan provided for severance of Bond and Share's control over American and stated significantly, "No plan presented by American can

light, would in all probability prove ineffective to remove statutory repugnancies. For example, we have pointed out that American and Electric are undue and unnecessary complexities partly because they do not perform, nor have they ever performed, any useful function. Nothing contained in the plans filed by the Respondents in our judgment is calculated to impart a useful function to these companies. In this connection, it is argued that these companies might perform the function of "holding together" integrated public utility systems as contemplated by Section 11(b) (1). However, this argument fails to impress us for a number of reasons. There is nothing about the subholding companies which makes them vehicles for holding together a single integrated system in any respect superior to any other corporate entity, and in fact it would seem that a company specially formed for this purpose, with appropriate domicile and a charter and by laws free from the complexities found in those of American and Electric, would be far preferable. *171/* More important it is not at

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ever provide for the severance of control by Electric Bond and Share, as I understood the matter."

Although stating that after distribution of the new securities, there would probably be a new election of directors, American's president conceded that the plan made no provision for the removal of the proxy machinery from the hands of the present management and for other safeguards to ensure that the present management and directors of American who had been placed in office by Bond and Share would not be permitted to perpetuate their tenure of office. (Cf. The safeguards set up in *Jacksonville Gas Company*, Holding Company Act Release No. 3570).

171/ In this connection, respondents urge that the formation of a new corporation might prove a burdensome expense because of transfer taxes and other taxes. However, we note that in Bond and Share's past career it formed and dissolved dozens of holding companies apparently without finding the tax problems a deterrent, and we further note that American's 11 (e) plan itself contemplates the formation of three new holding companies to facilitate the reorganization.

all certain on the present record that either American or Electric possesses any "single integrated system" which requires a holding company to hold it together. Without making any judgment on these points at this time, it may be stated that our uncertainty arises from two causes: first, it is an open question whether American and Electric will be able to sustain their claims as to their alleged "integrated systems", or as to their right to retain alleged additional systems under the standards of Section 11(b)(1): *172/* secondly, in the light of data in the record concerning write-ups in the property accounts, depreciation policies, and earnings histories of the system companies, there likewise exist substantial questions as to the equity of American and Electric in many of the subsidiaries which they claim as important parts of their systems; if it should later be determined that little or no equity exists in certain such companies, they of course would not be retainable apart from the standards of Section 11(b)(1). *173/*

Furthermore, in considering the probability of the plans'

172/ For example, the areas covered by American's alleged "Northwestern System" and Electric's alleged "Southern Electric System" raise immediate question as to whether such areas conform to the statutory requirement of being ". . . . not so large as to impair (considering the state of the art and area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation."

173/ For example, in the case of American's alleged Northwestern system, the record indicates doubt that after adjustment for write-ups and inadequate depreciation reserves, there remains any substantial equity asset-wise for American in four of the five companies alleged to comprise this system, namely, Pacific Power & Light Company, Northwestern Electric Company, Portland Gas & Coke Company and Montana Power Company.

Similar doubt exists as to the principal companies in American's alleged Texas system and as to the companies claimed to constitute Electric's "Southern Electric system."

effectiveness to satisfy the statutory requirements, it must be borne in mind that the plans as filed might never become effective at all, even if approved by us at the end of long proceedings, because they are expressly made subject to stockholder ratification which will be sought only after our approval is obtained.

From the foregoing discussion it is clear that in a number of important respects the present plans of American and Electric completely fail to satisfy the statutory requirements effectively, even if the important element of time be wholly disregarded. Under the circumstances we have difficulty in perceiving how it can be seriously urged that by virtue of these documents the dissolution of American and Electric is not "necessary" within the statutory meaning. Accordingly we reaffirm our finding that such dissolution is necessary.

C. *Considerations with respect to form of order*:

Apart from the contention that the 11(e) plans constitute a barrier against a dissolution order, which we have rejected for reasons stated above, it has been urged that the Commission's order should not exclude the possibility of American and Electric actually proceedings to reconstitute themselves and their systems in such manner that dissolution will no longer be necessary. Specifically it has been urged that our order should contain a reservation to the effect that American and Electric, or either of them, shall have the right to apply to this Commission for the revocation or appropriate modification of such order if within the time allowed by the statute (unless extended as provided in the statute) they, or either of them, shall have

(a) ceased to be a part of the holding company system of Bond and Share or affiliated therewith,

(b) reduced their respective capital structure to a

single class of stock conforming in all respects to the standards of Section 11(b) (2), and

(c) disposed of all securities and properties except those which represent such system or systems and incidental businesses as are retainable under the standards of Section 11(b) (1) and in consonance with the standards of Section 11(b) (2).

We are unable to agree as to the necessity or desirability of such a provision in our order, since, as we have recently had occasion to point out, *174/* the statute itself makes provision for revocation or modification of any order under Section 11(b) if the Commission finds, after notice and opportunity for hearing, "that the conditions upon which the order was predicated do not exist."

VII. Conclusions and Reservation of Jurisdiction

In line with what we have said in the foregoing sections, our conclusions are: (1) that the corporate structures and continued existence of American and Electric unduly and unnecessarily complicate the structure of the Bond and Share system and unfairly and inequitably distribute voting power among the security holders of such system; (2) that to effectuate the statutory requirements it is necessary that American and Electric be dissolved.

It is our intention to supervise all details of the effectuation of the order to be issued hereunder to ensure that the public interest and the interests of the security holders of American and Electric are safeguarded in all respects. Moreover, as we have noted, the practices of American and Electric have created many problems for their subsidiaries for which remedies must be found in order that these companies may be restored to a condition of soundness in the

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174/ The *North American Co.*, et al, Holding Company Act Release No. 3630.

interest of their security holders and the consuming public. Accordingly, we shall reserve jurisdiction to enter such orders as may be necessary for the purpose of assuring that the liquidation of American and Electric is carried out consistently with all the standards of the statute.

We reaffirm ou reservation of jurisdiction, previously noted, with respect to all issues specified in our Notice and Order for Hearing dated May 9, 1940, except the issue specified in our Order of June 7, 1940 which we have determined herein.

By the Commission (Chairman Purcell and Commissioners Healy, Burke and O'Brien), Commissioner Pike not participating.

For ORVAL L. DuBOIS, *Secretary.*

[SEAL]

By NELLYE A. THORSEN, *Assistant to the Secretary.*

UNITED STATES OF AMERICA

Before the Securities and Exchange Commission

At a regular session of the Securities and Exchange Commission, held at its office in the City of Philadelphia, Pennsylvania, on the 22nd day of August, A. D., 1942.

In the Matter of

Electric Bond and Share Company,
American Power & Light Company,
Pacific Power & Light Company,
Electric Power & Light Corporation,
Utah Power & Light Company,
National Power & Light Company,
Ebasco Services Incorporated,

Respondents.

File No. 59-12

Public Utility Holding Company Act of 1935—Section 11(b) (2).

ORDER REQUIRING DISSOLUTION OF AMERICAN POWER & LIGHT COMPANY.

The Commission having on May 9, 1940 issued its notice of and order for hearing instituting this proceeding pursuant to Section 11(b) (2) of the Public Utility Holding Company Act of 1935 and having issued supplementary Orders dated June 7, 1940 and June 17, 1940; and

After hearings had been held in the above matter, the Commission having issued its order dated August 23, 1941 requiring the dissolution of respondent National Power & Light Company and reserving jurisdiction as to the issues in the proceeding with respect to the other respondents; and

Further hearings have been held in the above matter, and counsel for the respondents and for the Public Utilities Division having stipulated that the record may be closed with respect to respondent American Power & Light Company, and that the Commission may proceed to enter its findings, opinion, and order with respect to the aforesaid Respondent; and

Counsel for the respondent having waived any right to a trial examiner's report or to submit proposed findings of fact, oral argument or briefs with respect to the issues herein as respects the aforesaid respondent; and

The Commission having examined the record herein and having considered all motions and objections urged by the respondents and having this day made and filed its findings and opinion thereon, finding *inter alia* that the action hereinafter directed to be taken is necessary to ensure that the corporate structure and continued existence of respondent American Power & Light Company shall not unduly or unnecessarily complicate the structure, or unfairly or inequitably distribute voting power among se-

curity holders, of the holding-company system of Electric Bond and Share Company:

It is ordered that the motion filed by counsel for respondents to dismiss the Commission's notice of and order for hearing dated May 9, 1940 and supplementary order dated June 7, 1940, and to dismiss the within proceeding, be, and the same hereby is, denied as to respondent American Power & Light Company; and that the motion filed by respondents to strike various exhibits introduced in evidence by counsel for the Public Utilities Division, be, and the same hereby is denied as to respondent American Power & Light Company; and that the exceptions noted by respondents to rulings of the trial examiner during the course of the hearings be, and the same hereby are, overruled as to respondent American Power & Light Company; and

It is further ordered that the motion of respondents to consolidate with the within proceeding a certain "Application for approval of Plan Under Section 11(e) of the Public Utility Holding Company Act of 1935" heretofore filed with this Commission by American Power & Light Company be, and the same hereby is denied; and

It is further ordered pursuant to Section 11(b) (2) of the Public Utility Holding Company Act of 1935 that the existence of American Power & Light Company shall be terminated and that said company shall be dissolved;

It is further ordered that respondent American Power & Light Company and respondent Electric Bond and Share Company shall proceed with due diligence to submit to this Commission a plan or plans for the effectuation of this order, and shall take such other and further steps as may be necessary or appropriate to effectuate this order; and

It is further ordered that jurisdiction be, and the same hereby is, reserved to enter such further orders as may be

necessary or appropriate for the purpose of ensuring tha the provisions of this order are carried out in a manne consistent with the public interest and the provisions of th Act; and that jurisdiction be, and the same hereby is, re served with respect to all issues in the within proceedin not resolved by the provisions of this order above set forth

By the Commission.

For ORVAL L. DuBOIS, *Secretary.*

[SEAL]

By NELLYE A. THORSEN, *Assistant to the Secretary.*

UNITED STATES OF AMERICA

Before the Securities and Exchange Commission

At a regular session of the Securities and Exchange Commission, held at its office in the City of Philadelphia, Pennsylvania, on the 22nd day of August, A. D., 1942.

In the Matter of

Electric Bond and Share Company,
American Power & Light Company,
Pacific Power & Light Company,
Electric Power & Light Corporation,
Utah Power & Light Company,
National Power & Light Company,
Ebasco Services Incorporated,

Respondents.

File No. 59-12

Public Utility Holding Company Act of 1935—Section 11(b) (2)

ORDER REQUIRING DISSOLUTION OF ELECTRIC POWER & LIGHT CORPORATION.

The Commission having on May 9, 1940 issued its notice of and order for hearing instituting this proceeding pur-

suant to Section 11(b) (2) of the Public Utility Holding Company Act of 1935 and having issued supplementary orders dated June 7, 1940 and June 17, 1940; and

After hearings had been held in the above matter, the Commission having issued its order dated August 23, 1941 requiring the dissolution of respondent National Power & Light Company and reserving jurisdiction as to the issues in the proceeding with respect to the other respondents; and

Further hearings have been held in the above matter, and counsel for the respondents and for the Public Utilities Division having stipulated that the record may be closed with respect to respondent Electric Power & Light Corporation, and that the Commission may proceed to enter its findings, opinion, and order with respect to the aforesaid respondent; and

Counsel for the respondent having waived any right to a trial examiner's report or to submit proposed findings of fact, oral argument or briefs with respect to the issues herein as respects the aforesaid respondent; and

The Commission having examined the record herein and having considered all motions and objections urged by the respondents and having this day made and filed its findings and opinion thereon, finding *inter alia* that the action hereinafter directed to be taken is necessary to ensure that the corporate structure and continued existence of respondent Electric Power & Light Corporation shall not unduly or unnecessarily complicate the structure, or unfairly or inequitably distribute voting power among security holders, of the holding-company system of Electric Bond and Share Company:

It is ordered that the motion filed by counsel for respondents to dismiss the Commission's notice of and order for hearing dated May 9, 1940, and supplementary order dated

June 7, 1940, and to dismiss the within proceeding, be, and the same hereby is, denied as to respondent Electric Power & Light Corporation; and that the motion filed by respondents to strike various exhibits introduced in evidence by counsel for the Public Utilities Division, be, and the same hereby is denied as to respondent Electric Power & Light Corporation; and that the exceptions noted by respondents to rulings of the trial examiner during the course of the hearings be, and the same hereby are, overruled as to respondent Electric Power & Light Corporation; and

It is further ordered that the motion of respondents to consolidate with the within proceeding a certain "Application for approval of Plan Under Section 11(e) of the Public Utility Holding Company Act of 1935" heretofore filed with this Commission by Electric Power & Light Corporation be, and the same hereby is denied; and

It is further ordered pursuant to Section 11(b) (2) of the Public Utility Holding Company Act of 1935 that the existence of Electric Power & Light Corporation shall be terminated and that said company shall be dissolved;

It is further ordered that respondent Electric Power & Light Corporation and respondent Electric Bond and Share Company shall proceed with due diligence to submit to this Commission a plan or plans for the effectuation of this order, and shall take such other and further steps as may be necessary or appropriate to effectuate this order; and

It is further ordered that jurisdiction be, and the same hereby is, reserved to enter such further orders as may be necessary or appropriate for the purpose of ensuring that the provisions of this order are carried out in a manner consistent with the public interest and the provisions of the Act; and that jurisdiction be, and the same hereby is, reserved with respect to all issues in the within proceed-

ing not resolved by the provisions of this order above set forth.

By the Commission.

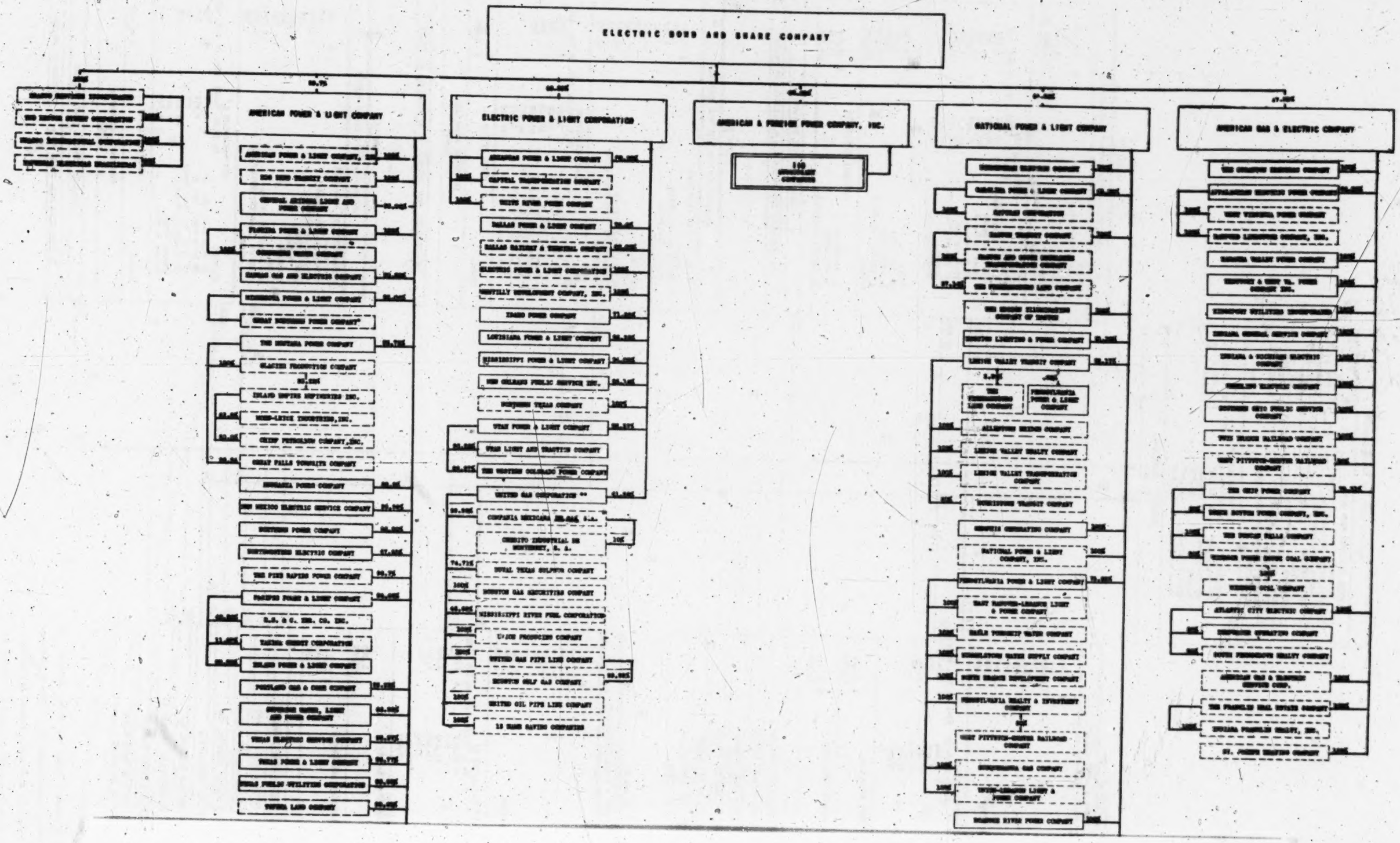
For ORVAL L. DuBOIS, *Secretary.*

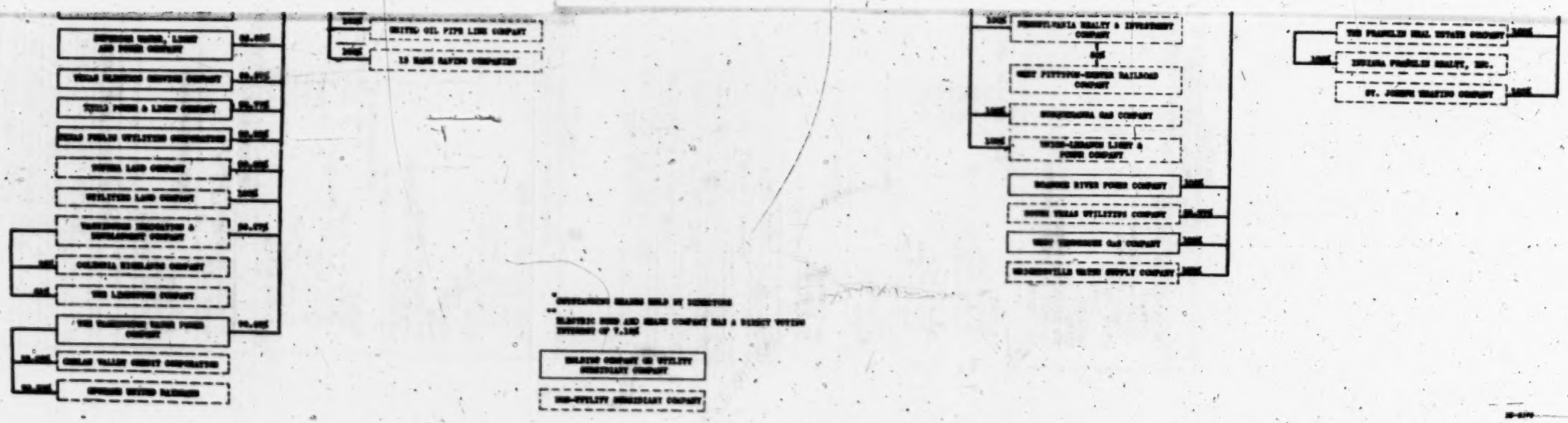
[SEAL]

By NELLYE A. THORSEN, *Assistant to the Secretary.*

ELECTRIC BOND AND SHARE COMPANY

CORPORATE CHART SHOWING PERCENTAGE OF VOTING POWER
AS OF DECEMBER 31, 1941

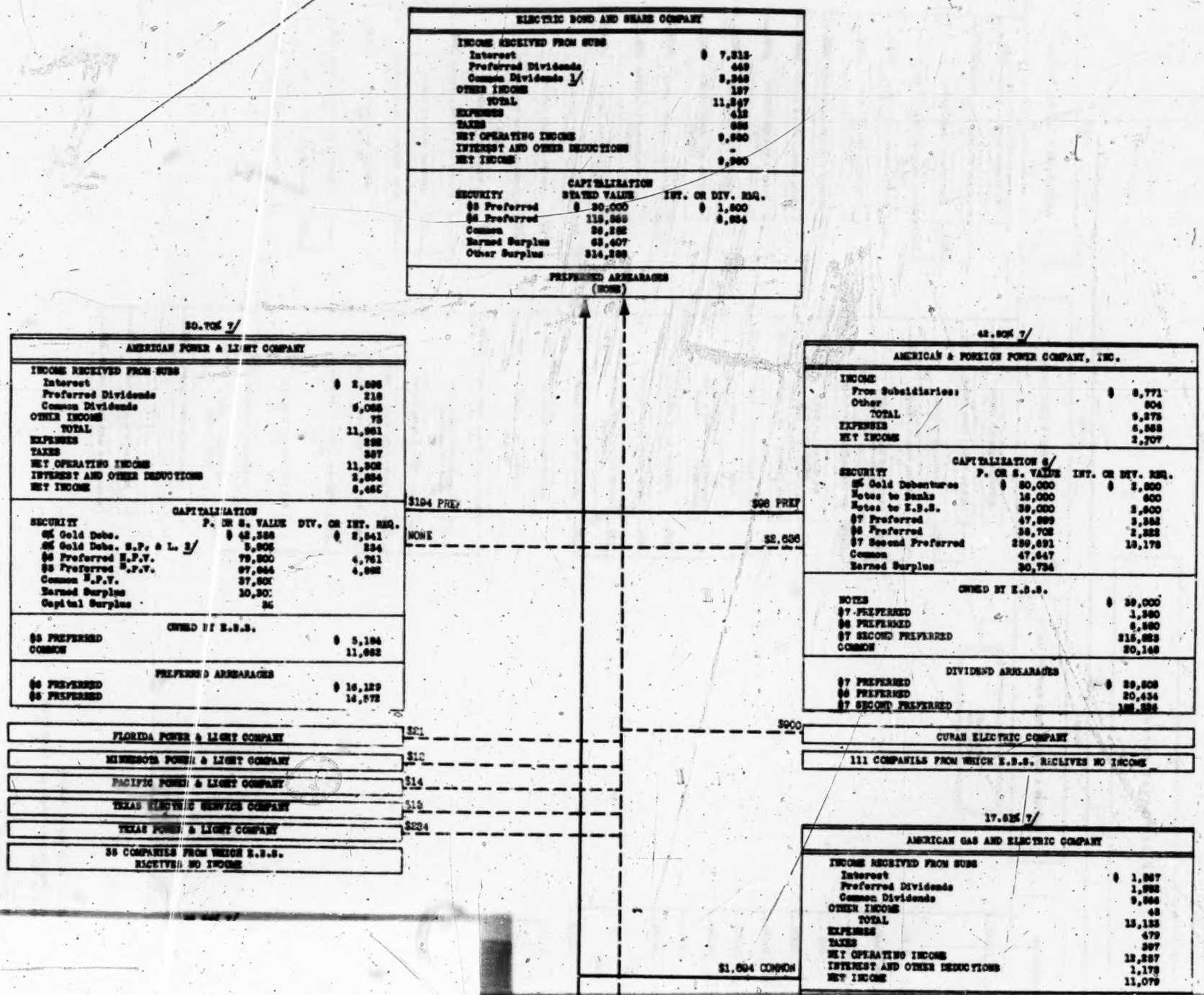


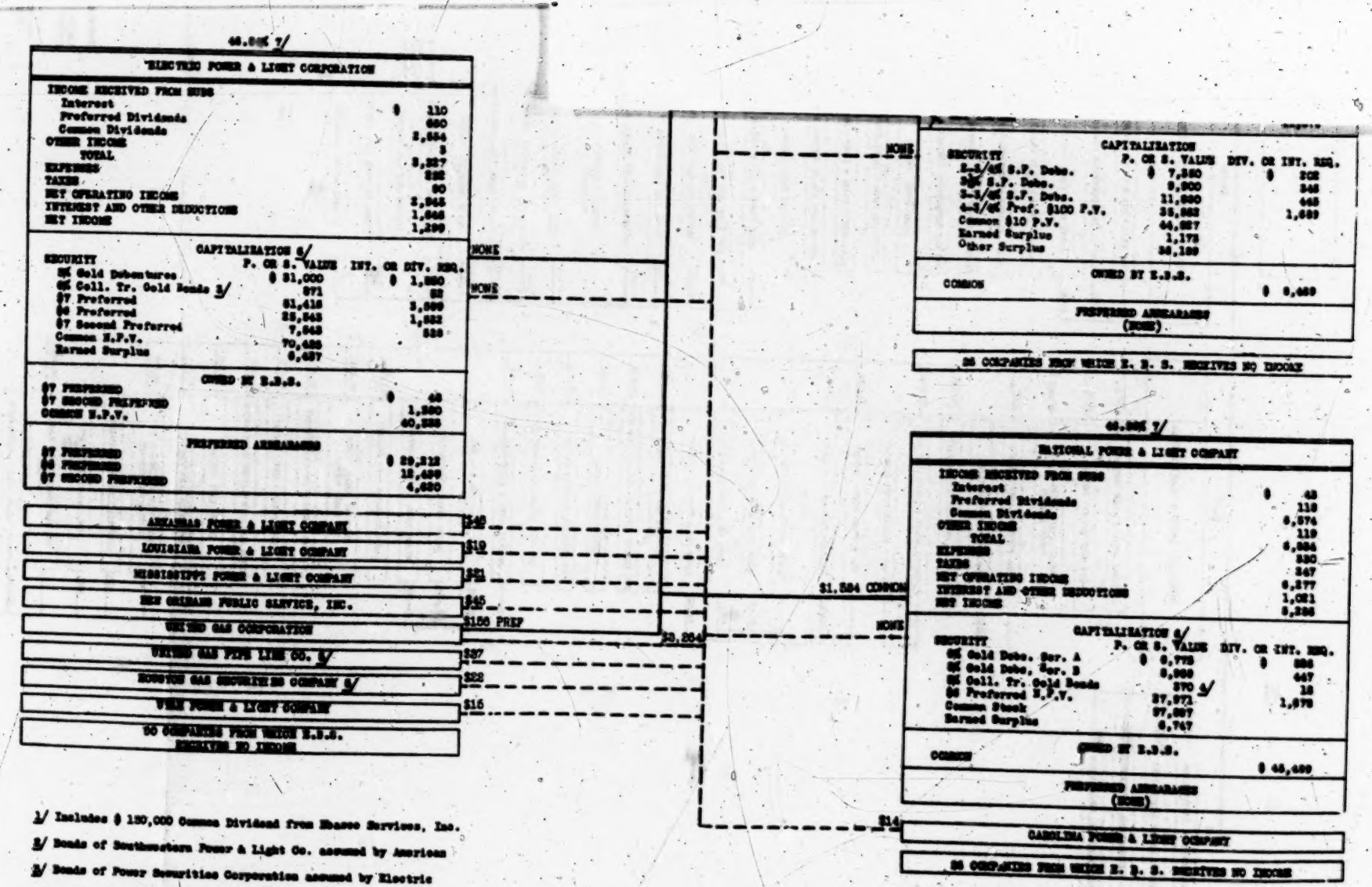

100%
UNITED OIL PIPE LINE COMPANY
100%
13 BAND SAWING COMPANIES
100%
PENNSYLVANIA REALTY & INVESTMENT COMPANY
AND
WEST PITTSTON-EXETER RAILROAD COMPANY
100%
WYOMING GAS COMPANY
100%
WYOMING-LUZERNE LIGHT & POWER COMPANY
WARREN RIVER POWER COMPANY 100%
SOUTH TEXAS UTILITIES COMPANY 99.83%
WEST TENNESSEE GAS COMPANY 100%
MCMINNVILLE WATER SUPPLY COMPANY 100%
THE FRANKLIN REAL ESTATE COMPANY 100%
INDIANA FRANKLIN REALTY, INC. 100%
ST. JOSEPH BRAZING COMPANY 100%
OPERATIONS SEASON HELD BY DIRECTORS
ELECTRIC FEED AND SEASE COMPANY HAS A DIRECT VOTING INTEREST OF 9.10%
HOLDING COMPANY OR UTILITY SUBSIDIARY COMPANY
NON-UTILITY SUBSIDIARY COMPANY

ELECTRIC BOND AND SHARE COMPANY

ANALYSIS OF SOURCES OF INCOME - YEAR 1940

(000 OMITTED)





1/ Includes $ 130,000 Common Dividend from Rhacco Services, Inc.

2/ Bonds of Southeastern Power & Light Co. assumed by American

3/ Bonds of Power Securities Corporation assumed by Electric

4/ Bonds of Lancaster County Railway and Light Co. assumed by National

5/ Subsidiary of United Gas Corporation

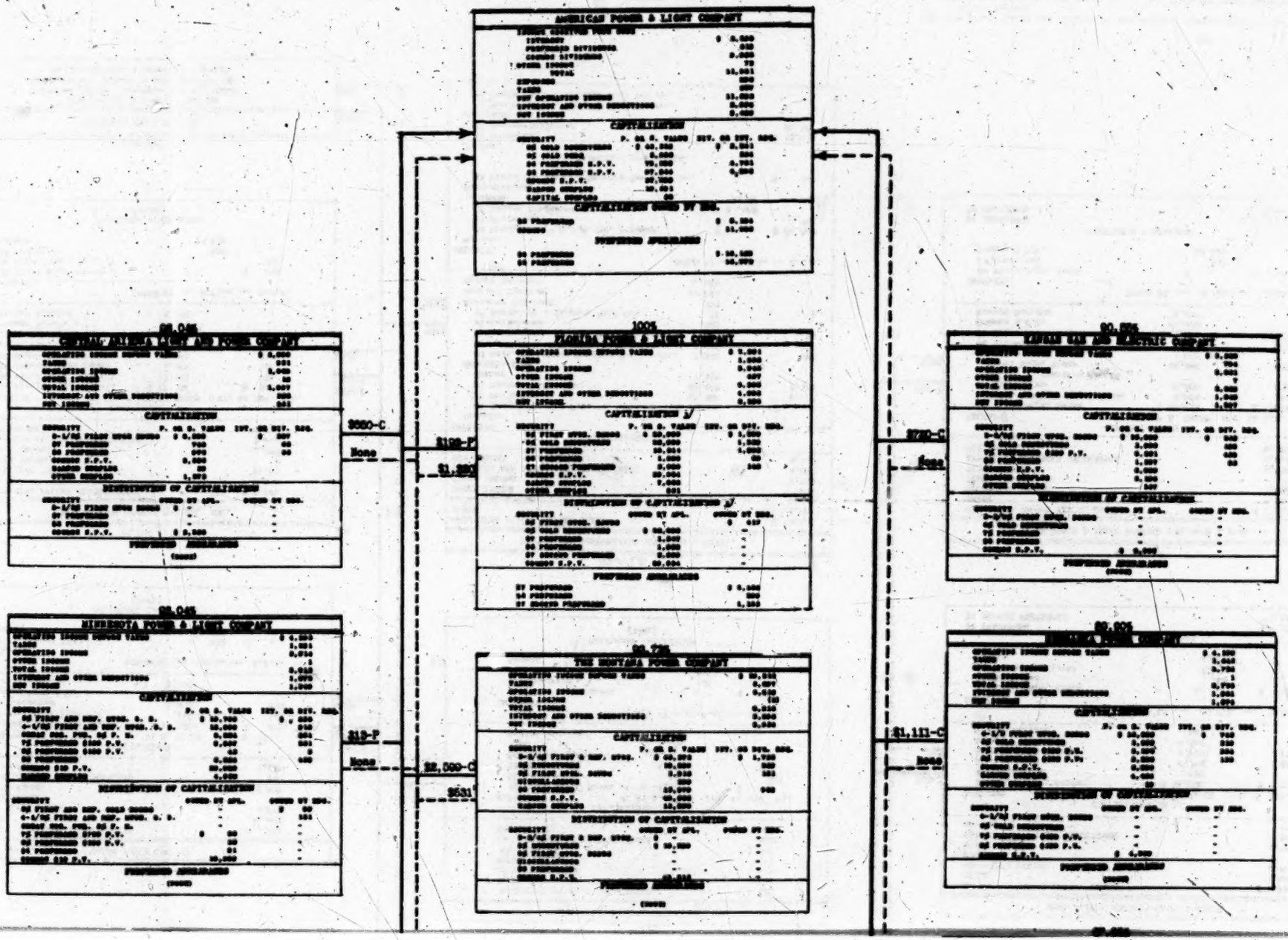
6/ All classes of stock are carried in the Capital Stock Account of the issuer at one figure. For the purposes of this chart preferred stocks have arbitrarily been assigned liquidating values, and the balance of the Capital Stock Account assigned to Common Stock.

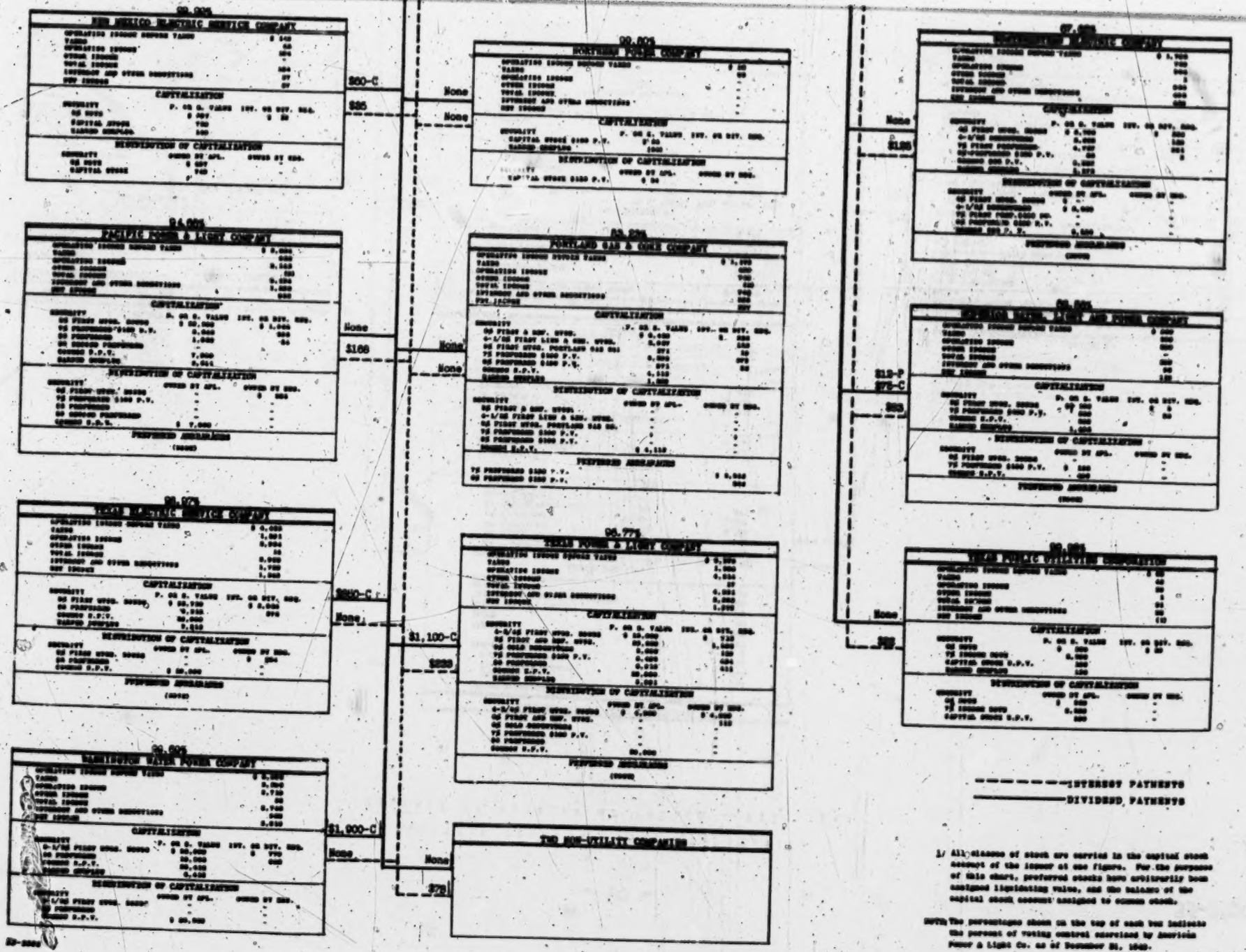
7/ Indicates percent of voting control exercised by Electric Bond and Share Company at December 31, 1940.

ANALYSIS OF SOURCES OF INCOME - YEAR 1940

AMERICAN POWER & LIGHT COMPANY

(000 - OMITTED)





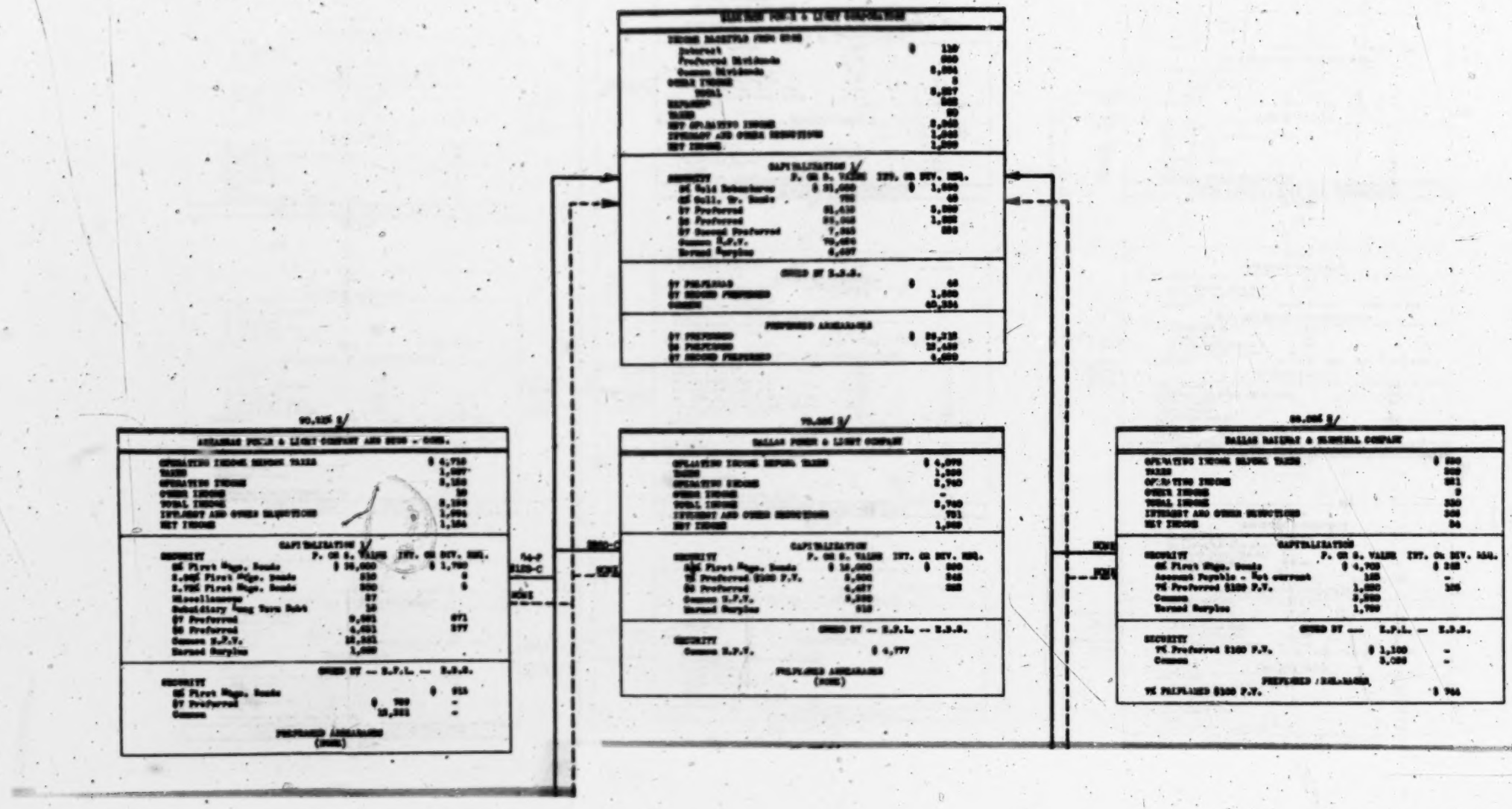
1/ All classes of stock are carried in the capital stock account of the issuer at one figure. For the purposes of this chart, preferred stocks have arbitrarily been assigned liquidating value, and the balance of the capital stock account assigned to common stock.

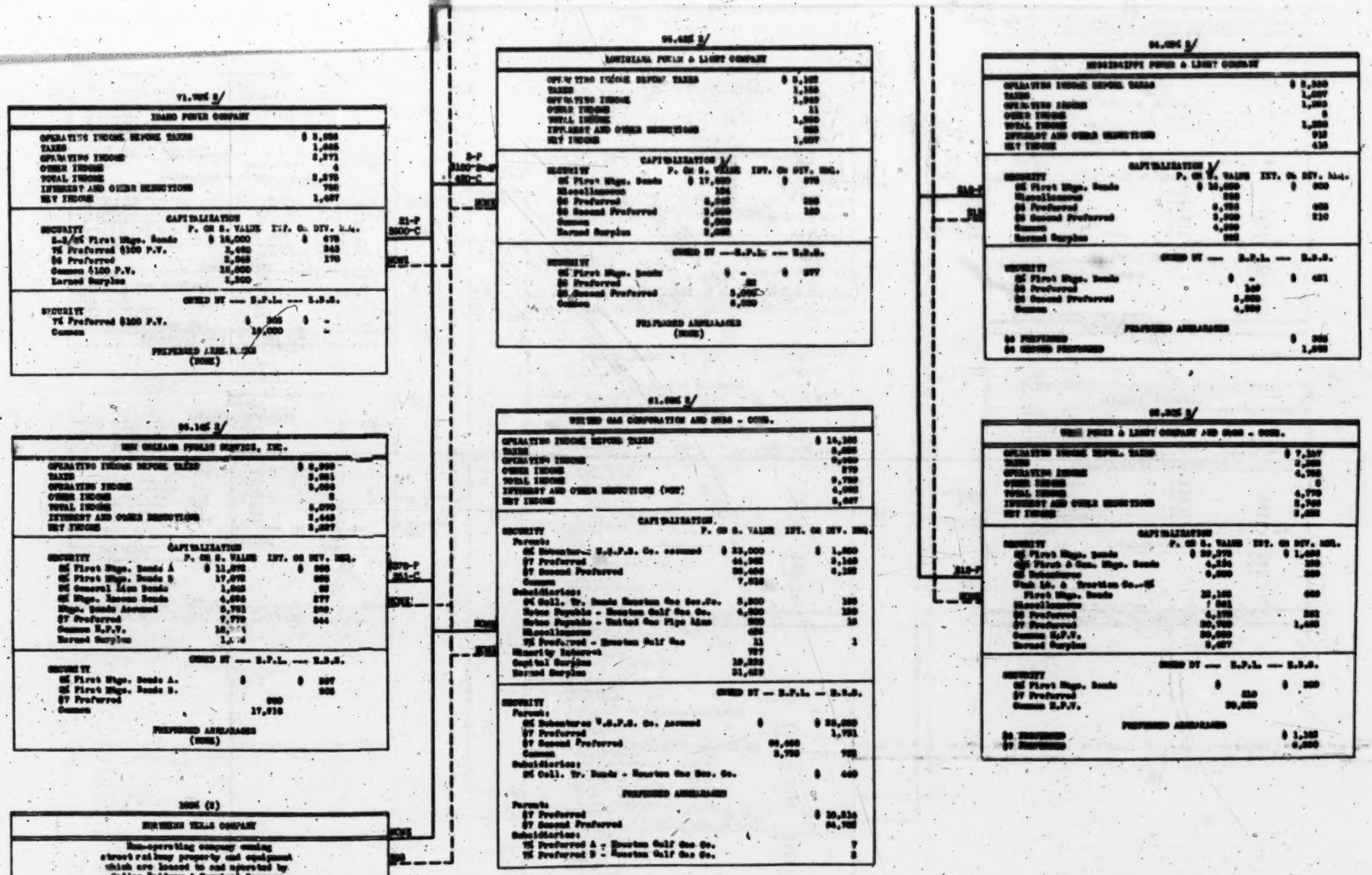
NOTE: The percentages shown on the top of each box indicate the percent of voting control exercised by American Power & Light Co. as of December 31, 1940.

ELECTRIC POWER & LIGHT CORPORATION

ANALYSIS OF SOURCES OF INCOME - YEAR 1948

(000 OMITTED)





(1) All stock issues are carried in the capital stock account of the issuer at par amount. For the purpose of this chart the preferred stocks have arbitrarily been assigned their liquidating values and the remainder of the capital stock account assigned to the common.

(2) Voting power held by Electric Power & Light Corporation at December 31, 1940.

NUMBER OF SUBSIDIARIES, CONSOLIDATED CAPITALIZATION AND CONSOLIDATED ASSETS OF EACH OF NINE AND SHARE'S SUB-HOLDING COMPANY SUBSIDIARIES — DECEMBER 31, 1941

	Number of Subsidiaries	Consolidated Capitalization: Long-Term Debt	Preferred Stocks: Holding Company	Preferred Stocks: Subsidiaries	Common Stocks (Sub-Holding Companies)	Minority Interest (Subsidiaries)	Surplus 1/	Total	Consolidated Assets
American Gas and Electric Company	25	238,210,000	$ 35,562,300	$ 65,700,400	$ 44,827,370	$ none	$ 66,106,128 2/	$ 450,486,198	$ 586,071,097
Unpaid cumulative dividends on preferred stocks			none	none			-		
American Power & Light Company	36	357,286,072	177,145,326	111,622,100	37,434,351	621,193	49,619,895	733,728,937	851,251,525
Unpaid cumulative dividends on preferred stocks			35,114,748	3,615,226			(38,730,014)		
American & Foreign Power Company, Inc. 3/	110	141,532,789	346,288,445	36,316,662	47,651,807	7,849,939	52,647,772	632,287,614	705,883,738
Unpaid cumulative dividends on preferred stocks			258,697,786	12,923,743			(272,621,529)		
Electric Power & Light Corporation 3/	38	290,821,615 4/	84,575,467	117,405,300	70,468,872	2,534,194	51,990,703	617,995,951	749,183,549
Unpaid cumulative dividends on preferred stocks			50,889,325	17,803,228			(68,692,553)		
National Power & Light Company	28	224,853,450	27,971,600	88,903,409	97,897,495	1,747	15,865,447	455,443,148	542,078,708
Unpaid cumulative dividends on preferred stocks			none	135,454			(135,454)		
Total	237	$1,252,703,926	$1,016,345,297	$466,903,972	$298,279,895	$11,007,073	$[illegible]	$2,890,231,596	$3,434,456,774

1/ Unpaid cumulative dividends on preferred stocks of subsidiaries held by public are charged to surplus in consolidation and segregated on the consolidated balance sheets. For the purpose of this schedule such amounts have been reinstated in surplus and deducted as shown.

2/ Includes:

Premium on Preferred Stock - Subsidiaries	$2,678,822
Net Excess of Equity in Assets of Subsidiaries Consolidated over Investment in Subsidiaries Consolidated, exclusive of Earned Surplus	[illegible]
	$[illegible]

3/ Does not include Option Warrants.

4/ Includes: United Gas Corporation, Unsecured Note - 6% due on Demand, $25,935,000; and Advance on Open Account - 6% on Demand, $2,000,000; both owed to Electric Bond and Share Company.

( ) Indicates red figure.

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APPENDIX D

STATED VALUE ON BOOKS OF BOND AND SHARE'S SUB-HOLDING COMPANY SUBSIDIARIES OF SECURITIES OWNED BY BOND AND SHARE, PERCENTAGE OF TOTAL CONSOLIDATED CAPITALIZATION AND PERCENTAGE OF VOTING POWER OF SUCH SECURITIES TO TOTAL PER CONSOLIDATED BALANCE SHEETS — DECEMBER 31, 1941

	Consolidated Capitalization Owned by Bond and Share							
	Preferred Stocks							
	Long-Term Debt	Holding Company	Subsidiaries	Common Stocks	Surplus	Total	Per Cent of Total Capitalization	Per Cent of Voting Power Represented
American Gas and Electric Company	$ -	$ -	$ -	$ 8,469,850	$ 12,490,092	$ 20,959,942	4.65	17.51
Unpaid cumulative dividends on preferred stocks		-	-					
American Power & Light Company	6,120,000	5,184,000	-	11,661,668	3,392,148	27,300,706	3.72	20.70
Unpaid cumulative dividends on preferred stocks		942,840	-					
American & Foreign Power Co., Inc. 1/	57,400,000	223,784,510	-	20,147,184	(92,582,104)	383,404,061	60.6	42.28
Unpaid cumulative dividends on preferred stocks		174,654,471	-					
Electric Power & Light Corporation 1/	56,288,000 2/	1,439,000	1,731,000	40,336,973	(9,674,788)	91,457,934	14.81	46.83
Unpaid cumulative dividends on preferred stocks		979,288	358,461					
National Power & Light Company	-	-	-	45,567,106	7,323,792	52,890,898	11.61	46.56
Unpaid cumulative dividends on preferred stocks		-	-					
Total	$119,808,000	$406,984,109	$ 2,089,461	$126,182,781	$(79,050,860)	$576,013,541	19.93	

1/ Does not include option warrants.

2/ Includes; United Gas Corporation, Unsecured Note - 6% due on Demand, $25,925,000; and Advances on Open Account - 6% due on Demand $2,000,000.

SCHEDULE SHOWING BOND AND SHARE'S INTEREST IN THE CAPITALIZATION OF AMERICAN AND AMERICAN'S SUBSIDIARIES, AS PER BOOKS AND AS ADJUSTED, DECEMBER 31, 1941

	As Per Books of American (1)	Adjusted to Book Value as Per Subsidiaries Books 1/ (2)	Adjusted to Book Value and for Indicated System Write-ups 2/ (3)	Adjusted to Book Value, for Indicated System Write-ups and for Depreciation 3/ (4)
Interest of Bond and Share in American				
1. Capitalization of American including surplus 4/	$270,493,611	$323,744,487	$135,666,471	$ 41,095,603
2. Bond and Share's interest	9,966,795	26,547,603	-	-
3. Per cent of Bond and Share's interest to total	3.68%	8.20%	-	-
Interest of American in its subsidiaries				
4. Capitalization of American's subsidiaries including surplus 4/		729,143,155	540,717,768	445,896,726
5. Book Value of American's investments in its subsidiaries (as per subsidiaries' books and as adjusted) 5/		303,837,930	115,759,914	21,189,046
6. Book value of American's investment (as per subsidiaries books and as adjusted) as a per cent of total capitalization of its subsidiaries (5 ÷ 4)		41.67%	21.41%	4.75%
7. Carrying value of American's investment in its subsidiaries as per books of American 5/		250,587,054	250,587,054	250,587,054
8. Excess of book value of American's investments (as per subsidiaries' books and as adjusted) over carrying value on American's books (5 - 7)		53,250,876	(134,827,140)	(229,398,008)
Interest of Bond and Share in American's Subsidiaries				
9. Bond and Share's interest in capitalization of American's subsidiaries through American (5 x 3)		24,914,710	-	-
10. Per cent of Bond and Share's interest in capitalization of American's subsidiaries through American (9 ÷ 4)		3.42%	-	-
11. Bond and Share's direct interest in capitalization of American's subsidiaries		6,120,000	6,120,000	6,120,000
12. Total interest of Bond and Share in capitalization of American's subsidiaries		31,034,710	6,120,000	6,120,000
13. Per cent of Bond and Share's total interest capitalization of American's subsidiaries (12 ÷ 4)		4.26%	1.13%	1.37%

1/ This adjustment adds the excess of the book value of American's investment as per books of American's subsidiaries over the amount at which these investments are carried in American's investment account.

2/ Adjusted for 1/ and to eliminate indicated system write-ups.

3/ Adjusted for 2/ and to eliminate the excess of depreciation claimed or allowed for income tax purposes over property retirement appropriations as per books.

4/ Adjusted for preferred dividend arrearages, to eliminate reacquired preferred stocks, and to reflect preferred stocks at liquidating values.

5/ Exclusive of $950,000 notes and advances of Glacier Production Company, an indirect subsidiary of American.

( ) Indicates Red Figure

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SCHEDULE COMPARING TOTAL ASSETS, BOOK CAPITALIZATION, AND ADJUSTED CAPITALIZATION OF AMERICAN'S SUBSIDIARIES AND SHOWING AMERICAN'S AND BOND AND SHARE'S INTEREST IN SUCH CAPITALIZATION, DECEMBER 31, 1941

Subsidiaries of American	Total Assets As Per Books	Capitalization As Per Books 1/				Adjustment for Indicated System Write-ups	Capitalization As Adjusted for Indicated System Write-ups			
		Total	Representing Securities Owned by American	Representing Bond and Share's Interest			Total	Representing Securities Owned by American	Representing Bond and Share's Interest	
				Through American 2/	Direct				Through American	Direct
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Big Bend Transit Company	$ 508,734	$ 508,734	$ 508,734	$ 41,716	$ -	$ -	$ 508,734	$ 508,734	$ -	$ -
Central Arizona Light and Power Company	17,504,221	12,063,787	3,887,687	318,790	-	-	12,063,787	3,887,687	-	-
Florida Power & Light Company	140,036,654	124,706,306	58,439,106	4,792,007	417,000	36,883,684	87,822,622	21,555,422	-	417,000
Kansas Gas and Electric Company	41,671,964	35,196,471	8,560,371	701,950	-	1,846,194	33,350,277	6,714,177	-	-
Minnesota Power & Light Company	83,487,824	74,024,334	25,308,809	2,075,322	251,000	22,055,786	51,968,548	3,253,129	-	251,000
The Montana Power Company	155,506,757	139,129,356	73,939,843	6,063,067	-	57,000,000	82,129,356	17,079,515	-	-
Nebraska Power Company	43,506,482	36,861,099	9,088,757	745,278	-	5,366,453	30,994,586	3,421,816	-	-
New Mexico Electric Service Company	1,644,501	1,459,055	1,459,055	119,643	-	750,669	708,386	708,386	-	-
Northern Power Company	786,613	737,872	737,872	60,506	-	273,067	464,805	464,805	-	-
Northwestern Electric Company	23,435,981	18,854,680	7,372,580	604,552	-	3,500,000	15,354,680	3,872,580	-	-
Pacific Power & Light Company	46,060,021	38,764,418	11,563,518	948,208	285,000	4,164,728	34,599,690	7,398,790	-	285,000
Pike Rapids Power Company	52,110	52,085	51,408	4,215	-	-	52,085	51,408	-	-
Portland Gas & Coke Company	25,793,285	21,218,200	2,348,256	192,557	-	300,000	20,913,200	2,048,266	-	-
Superior Water Light and Power Company	5,573,179	4,192,105	3,747,847	307,323	-	1,255,626	2,936,479	2,493,226	-	-
Texas Electric Service Company	83,504,062	72,267,993	32,276,263	2,646,654	254,000	33,014,107	39,253,886	(737,402)	-	254,000
Texas Power & Light Company	89,152,661	80,982,852	28,896,252	2,369,493	4,913,000	19,000,000	61,982,852	9,896,252	-	4,913,000
Texas Public Utilities Corporation	3,212,793	2,881,543	2,881,543	236,287	-	397,308	2,484,235	2,484,235	-	-
Topeka Land Company	331,313	323,503	323,503	26,527	-	-	323,503	323,503	-	-
Utilities Land Company	1,318,240	1,313,513	1,313,513	107,708	-	-	1,313,513	1,313,513	-	-
Washington Irrigation & Development Company	344,572	343,566	343,174	28,140	-	-	343,566	343,174	-	-
The Washington Water Power Company	77,328,105	63,261,743	30,789,839	2,524,767	-	2,117,765	61,143,978	28,678,698	-	-
Total	$840,760,062	$729,343,155	$303,837,930	$ 24,914,710	$ 6,120,000	$188,425,387	$540,717,768	$115,759,914	$ -	$ 6,120,000

1/ Including surplus, and as adjusted for preferred dividend arrearages, to eliminate reacquired preferred stocks, and to reflect preferred stocks at liquidating values.

2/ 8.20% of column (3) - see Item 3, Column (2) of Appendix B-1.

( ) Indicates red figure.

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APPENDIX B-2

Capitalization As Adjusted for Indicated System Write-ups and for Excess of Depreciation for Income Tax Purposes over Property Retirement Appropriations As Per Books

Adjustment for Depreciation	Total	Representing Securities Owned by American	Representing Bond and Share's Interest	
			Through American	Direct
(11)	(12)	(13)	(14)	(15)
$ -	$ 508,734	$ 508,734	$ -	$ -
(307,114)	12,370,901	4,194,801	-	-
22,165,213	65,657,409	(609,791)	-	417,000
5,207,857	28,142,420	1,506,320	-	-
5,322,873	42,645,675	(6,069,697)	-	251,000
8,239,634	73,889,722	8,860,068	-	-
6,092,842	24,901,744	(2,463,808)	-	-
77,498	630,888	630,888	-	-
221,702	243,103	243,103	-	-
3,565,866	11,788,814	306,714	-	-
3,475,256	31,124,434	3,923,534	-	285,000
-	52,085	51,408	-	-
4,575,245	16,342,955	(2,526,814)	-	-
747,705	2,188,774	1,746,119	-	-
7,284,133	31,969,753	(8,021,437)	-	254,000
16,894,713	45,088,139	(6,998,461)	-	4,913,000
268,965	2,215,270	2,215,270	-	-
-	323,503	323,503	-	-
-	1,313,513	1,313,513	-	-
-	343,566	343,174	-	-
6,988,454	54,155,324	21,711,905	-	-
$ 94,821,062	$445,896,726	$ 21,189,046	$ -	$ 6,120,000

APPENDIX F-1

Schedule Showing Bond and Share's Interest in the Capitalization of Electric and Electric's Subsidiaries, as Per Books and as Adjusted, December 31, 1941.

	As Per Books Of Electric (1)	Adjusted to Book Value As Per Subsidiaries' [illegible] 1/ (2)	Adjusted to Book Value and for Indicated System Write-ups 2/ (3)	Adjusted to Book Value Indicated System Write-ups and for Depreciation and Depletion 3/ (4)
Interest of Bond and Share in Electric 4/				
1. Capitalization of Electric including surplus	$192,189,868	$264,196,182	$201,081,908	$ 81,388,170
2. Bond and Share's interest	17,558,108	58,785,971	22,649,268	-
3. Percent Bond and Share's interest to total	9.14%	22.25%	11.26%	-
Interest of Electric in its subsidiaries				
4. Capitalization of Electric's subsidiaries including surplus 4/		653,981,088	590,749,222	469,782,265
5. Book value of Electric's investments in its subsidiaries (as per subsidiaries' books and as adjusted)		256,415,384	193,301,010	73,607,372
6. Book value of Electric's investments (as per subsidiaries' books and as adjusted) as a percent of total capitalization of subsidiaries (5 ÷ 4).		39.21%	32.72%	15.67%
7. Carrying value of Electric's investments in its subsidiaries on books of Electric		184,409,070	184,409,070	184,409,070
8. Excess of book value of Electric's investments (as per subsidiaries' books and as adjusted) over carrying value on Electric's books (5 - 7)		72,006,314	8,891,940	(110,801,698)
Interest of Bond and Share in Electric's subsidiaries				
9. Bond and Share's interest in capitalization of Electric's subsidiaries through Electric (5 x 3)		57,052,423	21,765,694	-
10. Percent Bond and Share's interest in capitalization of Electric's subsidiaries through Electric (9 ÷ 4)		8.72%	3.68%	-
11. Bond and Share's direct interest in capitalization of Electric's subsidiaries		58,377,461	58,377,461	58,377,461
12. Total interest of Bond and Share in capitalization of Electric's subsidiaries (9 + 11)		115,429,884	80,143,155	58,377,461
13. Percent Bond and Share's total interest in capitalization of Electric's subsidiaries (12 ÷ 4)		17.65%	13.57%	12.43%

1/ The adjustment adds the excess of book value of Electric's investments in its subsidiaries as per subsidiaries' books over the amount at which these investments are carried in the investment account of Electric.

2/ Adjusted for 1/ and to eliminate the indicated system write-ups.

3/ Adjusted for 1/ and to eliminate the indicated system write-ups plus the excess of depreciation and depletion for tax purposes over accruals per books.

4/ Adjusted for preferred dividend arrearages, to eliminate reacquired capital stock, and to reflect preferred stocks at liquidating values.

( ) Indicates red figure.

SCHEDULE COMPARING TOTAL ASSETS, BOOK CAPITALIZATION AND ADJUSTED CAPITALIZATION OF ELECTRIC'S SUBSIDIARIES AND SHOWING ELECTRIC'S AND BOND AND SHARE'S INTEREST IN SUCH CAPITALIZATION, DECEMBER 31, 1941

Subsidiaries of Electric	Total Assets As Per Books	Capitalization As Per Books 1/				Adjustment For Indicated System Write-ups	Capitalization as Adjusted for Indicated System Write-ups			
		Total	Representing Securities Owned By Electric	Representing Bond and Share's Interest Through Electric 3/	Direct		Total	Representing Securities Owned By Electric	Representing Bond and Share's Interest Through Electric 4/	Direct
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Arkansas Power & Light Company 2/	$ 76,011,879	$ 64,237,910	$ 15,247,048	$ 3,392,468	$ 915,000	$ 3,875,244	$ 60,362,666	$ 11,371,804	$ 1,280,463	$ 915,000
Dallas Power & Light Company	38,425,961	30,084,423	5,652,304	1,257,438	—	1,061,262	29,023,161	4,686,556	527,706	—
Dallas Railway & Terminal Company	12,270,880	11,443,863	5,716,871	1,272,004	—	—	11,443,863	5,716,871	643,720	—
Gentilly Development Company, Inc.	1,542,628	1,342,628	1,342,628	343,295	—	—	1,342,628	1,342,628	173,700	—
Idaho Power Company	48,382,805	42,604,195	18,545,495	4,126,373	—	9,523,401 5/	33,080,794	9,022,094	1,015,888	—
Louisiana Power & Light Company	42,211,729	34,801,488	11,264,343	2,506,316	377,000	9,632,002	25,169,486	1,632,341	183,802	377,000
Mississippi Power & Light Company	38,010,315	32,645,490	9,526,762	2,119,704	431,000	6,733,234	25,912,256	2,793,528	314,551	431,000
New Orleans Public Service Inc.	80,743,376	68,770,990	20,902,757	4,650,863	900,000	452,010	68,318,980	20,472,725	2,305,229	900,000
Northern Texas Company	2,060,756	2,031,342	2,031,342	451,974	—	—	2,031,342	2,031,342	228,729	—
United Gas Corporation 2/	309,434,115	256,334,928	140,008,906	31,151,982	55,454,461	— 6/	256,334,928	140,008,906	15,765,003	55,454,461
Utah Power & Light Company 2/	123,147,286	109,483,831	25,976,928	5,779,866	300,000	31,954,713	77,529,118	(5,977,785)	(673,099)	300,000
Total	$772,751,730	$663,981,088	$256,415,384	$57,052,423	$58,377,461	$63,231,866	$590,749,222	$191,303,010	$21,765,694	$58,377,461

1/ Including surplus, and as adjusted for preferred dividend arrearages, to eliminate reacquired preferred stocks, and to reflect preferred stocks at liquidating values.

2/ Consolidated basis.

3/ 22.23% of Column (3) - see Item 3, Column (2) of Appendix F-1.

4/ 11.26% of Column (8) - see Item 3, Column (3) of Appendix F-1.

( ) Indicates red figure.

APPENDIX B-2

ADJUSTED
TRIC'S AND
L 31, 1941

as Adjusted for tem Write-ups			Capitalization as Adjusted for Indicated System Write-ups and for Excess of Depreciation and Depletion for Tax Purposes Over Accruals for Retirements and Depletion Per Books			
Representing Bond and Share's Interest Through Electric A/	Direct	Adjustment for Depreciation and Depletion	Total	Representing Securities Owned By Electric	Representing Bond and Share's Interest Through Electric	Direct
(9)	(10)	(11)	(12)	(13)	(14)	(15)
$ 1,280,465	$ 915,000	$ 3,952,249	$ 56,410,417	$ 7,419,555	—	$ 915,000
527,706	—	4,563,521	24,459,640	533,752	—	—
643,720	—	2,553,110	8,890,753	3,306,421	—	—
173,700	—	—	1,542,628	1,542,628	—	—
1,015,888	—	3,418,300	29,662,494	5,609,794	—	—
183,802	377,000	1,650,500	23,718,986	181,841	—	377,000
314,551	431,000	2,678,529	23,233,727	114,999	—	431,000
2,305,229	900,000	—	68,318,980	20,472,725	—	900,000
228,729	—	—	2,031,342	2,031,342	—	—
15,765,003	55,454,461	80,268,739	176,066,189	60,460,109	—	55,454,461
(671,088)	300,000	22,082,009	55,467,108	(28,099,794)	—	300,000
$21,765,694	$58,377,461	$130,966,957	$469,782,264	$73,607,372	—	$58,377,461

values.

A/ Amount determined by Idaho Power Company to be excess of recorded value of properties over "original cost."

B/ No adjustment for write-up in United Gas Corporation in view of pendency of United Gas Corporation proceeding, File 70-314.

C/ Based on depreciation, depletion, etc. claimed for income tax purposes, no final findings concerning amounts allowable having been made by the Bureau of Internal Revenue.

Summary of Manner and Cost of Bond and Share's Acquisitions of Common Stock of American

APPENDIX G

	Number of Shares Acquired	Cash Cost	Stock Dividends	Appreciation	Ledger Value
Shares Acquired Prior to 1/1/28					
A. At organization of American	162,110.00	$ -	$ -	$ 243,165.00	$ 243,165.00
B. By exchange for common stock of Southwestern Utilities Corporation (1914)	35,425.00	62,550.00	-	150,000.00	212,550.00
C. By sale of securities of Omaha Electric Light and Power Company to American (1917)	50,000.00	-	-	-	-
D. Stock dividends received	79,673.64	-	796,736.40	-	796,736.40
E. By exchange for $1,182,400 American debentures	118,240.00	1,086,569.58	-	(21,776.58)	1,064,793.00
F. By exchange for Bonbright & Company stock	2,300.00	21,442.36	-	1,557.64	23,000.00
G. Cash purchases	14,013.82	205,803.85	-	126,731.91	332,535.76
H. Disposed of in exchange for other securities and for services and other intangibles	(3,300.00)	-	-	(11,550.00)	(11,550.00)
I. Net appreciation at year ends	-	-	-	3,315,560.75	3,315,560.75
Sub-total	458,462.46	$ 1,376,365.79	$ 796,736.40	$3,803,688.72	$ 5,976,790.91
Shares Acquired Subsequent to 1/1/28					
A. By purchase on the open market	105,700.12	$ 8,025,136.57	$ -	$ 1,198.99	$ 8,026,335.56
B. By merger with Electric Investors, Inc. (1929)	68,704.00	1,478,682.94 1/	1,168,429.87 2/	1,767,119.19 3/	4,414,232.00
C. Stock dividends received	304,342.42	-	3,765,772.54	-	3,765,772.54
D. Directors' qualifying shares repurchased	12.00	65.00	-	-	65.00
Sub-total	478,758.54	$ 9,503,884.51	$4,934,202.41	$1,768,318.18	$16,206,405.10
Total	937,221.00	$10,880,250.30	$5,730,938.81	$5,572,006.90	$22,183,196.01

1/ Cash cost to Electric Investors, Inc., and its predecessor Electrical Utilities Corp.

2/ Stock dividends received by Electric Investors, Inc., and its predecessor, Electrical Utilities Corp.

3/ Excess of valuation recorded on books of Bond and Share over ledger value as recorded on books of Electric Investors, Inc., plus net appreciation recorded by Electric Investors, Inc., and its Predecessor, Electrical Utilities Corp.

( ) Indicates Red Figure.

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APPENDIX H

SUMMARY OF MANNER AND COST OF BOND AND SHARE'S ACQUISITIONS OF COMMON STOCK OF ELECTRIC

	Number of Shares	Ledger Value	Cash Cost
I. Shares Acquired and Disposed of in Connection with Organization of Electric			
Acquisitions			
A. Pursuant to L. W. deBuys Agreement of March 12, 1925	310,000	$ 1.00	$(6,498,690.27)
B. Received for 56,193 shares of Utah Securities Corporation Common Stock	224,772	58,440.72	50,292.35
C. Net balance of shares acquired with $7 Preferred Stock in blocks (1925-1928)	19,534	-	-
D. Unsold shares remaining from those made available for sale with Second Preferred Stock of Electric	4,740	36,216.00 1/	36,216.00 1/
Total Acquisitions	559,046	94,657.72	
Disposals			
A. Pursuant to L. W. DeBuys Agreement of March 12, 1925 - made available for sale with preferred stock of Electric	200,000	$ -	$ -
B. Made available for sale with Second Preferred Stock of Electric to friendly interests (1925)	60,000	-	-
C. To Charles Hayden for "services"	705	-	-
Total Disposals	260,705	-	
Balance	298,341	$ 94,657.72	
II. Shares Acquired and Disposed of Subsequent to Organization of Electric			
Acquisitions			
A. Upon merger with Ebasco Corporation (1929)	5,500	$ 227,312.50 3/	2/
B. From Electric Investors, Inc. pursuant to Plan and Agreement of Reorganization (1929)	55,000	1,601,875.00	2/
C. Purchased in the open market (1926-1931)	260,601	12,759,565.33	12,759,565.33
D. Purchased directly from Electric (1931)			
(1) As Stockholder	567,846	8,517,690.00	8,517,690.00
(2) As Underwriter	797,550	11,963,250.00	11,527,071.50
Total	1,686,497	$35,069,692.83	
Disposals			
A. Sales (1930-1931)	8,200	417,275.00	417,275.00
Balance	1,678,297	$34,652,417.83	
Balance held December 31, 1941	1,976,638	$34,747,075.55	

1/ Allocation by Bond and Share.
2/ System cash cost not known.
3/ $763,166.06 in excess of ledger value on books of Electric Investors, Inc.
( ) Indicates Red Figure.

APPENDIX I

ELECTRIC BOND AND SHARE COMPANY

Statement Showing Corporate Net Income, Dividends Declared, and Market Range of Preferred and Common Stocks - Years 1925 to 1941 Inclusive

	1925	1926	1927	1928	1929	1930	1931	1932	1933
Corporate Net Income	$12,302,366	$14,069,234	$11,899,326	$12,098,160	$28,524,409	$42,355,162	$25,050,084	$13,566,665	$10,735,268
Preferred Dividends Declared	1,500,000	1,500,000	2,376,933	3,000,000	4,602,836	7,359,149	8,120,254	8,433,930	8,433,930
Balance	$10,802,366	$12,569,234	$ 9,522,393	$ 9,098,160	$23,921,573	$34,996,013	$16,929,829	$ 5,132,735	$ 2,301,338
Common Dividends Declared									
Cash	$ 2,412,819	$ 2,000,000	$ 3,387,500	$ 4,533,333	$ 1,700,000	-	-	-	-
Stock	-	-	-	-	5,264,331	$ 8,426,043	$ 8,714,486	$ 1,508,286	-
Balance	$ 8,389,546	$10,569,234	$ 6,134,893	$ 4,564,827	$16,957,241	$26,569,969	$ 8,215,342	$ 3,624,449	$ 2,301,338
Market Range of Preferred and Common Stock of Bond and Share -									
$5 Preferred Stock	-	-	-	-	-	88 to 98-3/8	38 to 97	16½ to 59½	22-1/8 to 59-3/4
$6 Preferred Stock	101½ to 107	104-7/8 to 110	105½ to 110-3/4	107 to 111-7/8	100 to 110	100-7/8 to 109-7/8	48 to 108-7/8	19 to 67	25 to 66
Common Stock	-	-	-	-	50 to 189	37-1/8 to 117-7/8	8-3/4 to 61	5 to 48	9-7/8 to 41-5/8

	1934	1935	1936	1937	1938	1939	1940	1941	
Corporate Net Income	$ 9,534,372	$ 9,299,895	$ 9,340,420	$10,642,146	$ 9,401,250	$ 9,709,073	$ 9,979,292	$ 9,571,422	
Preferred Dividends Declared	8,433,930	8,433,930	8,433,930	8,433,930	8,433,930	8,433,930	8,433,930	8,321,330	
Balance	$ 1,100,442	$ 865,965	$ 906,490	$ 2,208,216	$ 967,320	$ 1,275,143	$ 1,545,362	$ 1,250,092	
Common Dividends Declared	-	-	-	-	-	-	-	-	
Balance	$ 1,100,442	$ 865,965	$ 906,490	$ 2,208,216	$ 967,320	$ 1,275,143	$ 1,545,362	$ 1,250,092	
Market Range of Preferred and Common Stock of Bond and Share -									1942 (6 months)
$5 Preferred Stock	28½ to 50½	34 to 69	64-1/4 to 79	47-1/4 to 80	36 to 65	50-5/8 to 65	42 to 66	47⅞ to 65-3/4	38 to 60½
$6 Preferred Stock	31 to 60	37½ to 78½	74-3/4 to 88½	50 to 87½	42 to 70	59 to 72½	51 to 75-1/8	52 to 70	40 to 63-3/4
Common Stock	6 to 23½	3½ to 20-3/8	15-3/4 to 27	5-7/8 to 28-1/8	4½ to 15-7/8	6-3/8 to 12-7/8	3-5/8 to 8-3/4	3/4 to 4-3/8	7/8 to 1-3/8

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Statement Showing Corporate and Consolidated Net Income, Preferred Dividend Requirements, Balance of Net Income After Preferred Dividend Requirements, Dividends Declared, Preferred Dividends Paid and Common Shares of Preferred and Common Stocks.
For the Years 1922 to 1932, Inclusive.

	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931a	1932	1933	1934	1935
Corporate Net Income	$4,617,000	$4,000,000	$5,000,000	$10,000,000	$12,000,000	$13,000,000	$ 3,000,000	$ 6,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 6,000,000	$ 7,000,000	$ 6,000,000
Preferred Dividend Requirements	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Balance of Corporate Net Income	$3,417,000	$2,800,000	$3,800,000	$ 8,800,000	$ 8,800,000	$ 8,800,000	$ 1,800,000	$ 4,800,000	$ 1,800,000	$ 1,800,000	$ 1,800,000	$ 4,800,000	$ 5,800,000	$ 4,800,000
Consolidated Net Income	$9,000,000	$9,000,000	$10,000,000	$15,000,000	$20,000,000	$27,000,000	$34,000,000	$ 8,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000
Preferred Dividend Requirements	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Balance of Consolidated Net Income	$7,800,000	$7,800,000	$ 8,800,000	$13,800,000	$18,800,000	$25,800,000	$32,800,000	$ 6,800,000	$ 1,800,000	$ 1,800,000	$ 1,800,000	$ 1,800,000	$ 1,800,000	$ 1,800,000
Dividends Declared														
Preferred Stock	$1,200,000	$1,200,000	$1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000
Common Stock - 2% Cash	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
- 2% Common Stock	617,813	800,000	900,000	1,000,000	2,000,000	3,000,000	4,000,000	4,000,000	4,000,000	—	—	—	—	—
Preferred Dividend Arrearages at December 31	—	—	—	—	—	—	—	—	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000	$ 1,200,000
Market Range of Preferred and Common Stock of Corporation														
Preferred Stock (2%)	81 to 90	90 to 99 1/4	97 1/2 to 100 3/4	100 1/2 to 107 1/4	98 1/2 to 104	99 to 107	44 1/2 to 100	11 1/4 to 20	1/2 to 11 1/2	11 1/2 to 18 1/2	10 1/2 to 18 1/2	43	31 to 57 1/2	33
2% Preferred Stock	48 1/2 to 68 1/2	48 1/4 to 79 1/2	96 to 95 3/4	99 1/2 to 99	99 to 99	34 1/2 to 110 1/2	11 1/2 to 41 3/4	3 to 17 1/4	1 to 5 3/4	3 to 14 1/4	1 1/2 to 9 3/4	9 1/2 to 14 3/4	3 to 16 1/2	3 1/4 to 9 1/2
Common Stock				88 1/4 to 99	44 1/4 to 277 3/4									

( ) Indicates red figure.

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[redacted]	[redacted]	[redacted]	[redacted]
$ [redacted]	$ [redacted]	$ [redacted]	$ [redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
$ [redacted]	$ [redacted]	$ [redacted]	$ [redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
$ [redacted]	$ [redacted]	$ [redacted]	$ [redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

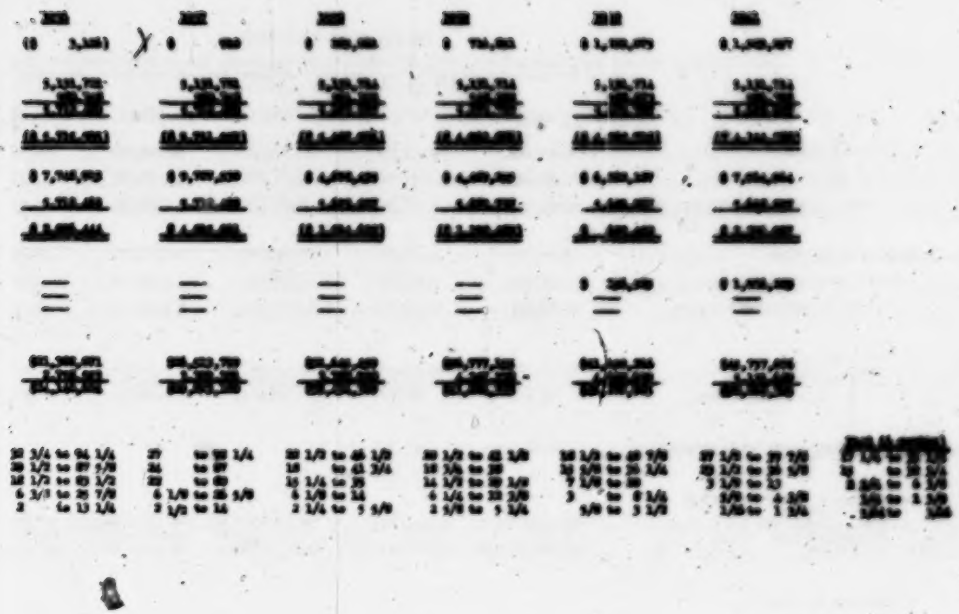
ELECTRIC POWER & LIGHT CORPORATION

Statement Showing Corporate and Consolidated Net Income, Preferred Dividend Requirements, Balance of Net Income After Preferred Dividend Requirements, Dividends Declared, Preferred Dividend Arrearages, and Market Range of Preferred and Common Stocks and Option Warrants For the Years 1925 to 1941 Inclusive

	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Corporate Net Income	$3,996,684	$4,405,462	$5,005,480	$5,430,923	$6,079,348	$ 7,239,973	$8,777,195	$4,167,288	($ 110,039)	($ 399,386)	($ 395,797)	($ 3,135)	$ 950
Preferred Dividend Requirements 1/													
First Preferred Stock	1,676,881	2,923,025	3,242,318	3,402,271	3,528,567	4,119,773	5,114,981	5,131,737	5,131,794	5,131,798	5,131,798	5,131,798	5,131,798
Second Preferred Stock	608,226	776,988	774,837	775,161	780,980	784,609	784,609	780,609	697,484	538,268	538,268	538,268	538,268
Total	2,285,107	3,700,013	4,017,155	4,177,432	4,309,547	4,904,382	5,899,590	5,912,346	5,829,278	5,670,066	5,670,066	5,670,066	5,670,066
Balance of Corporate Net Income	$ 711,577	$ 705,449	$1,088,325	$1,253,491	$1,769,801	$ 2,335,591	$2,877,605	($5,744,634)	($5,939,317)	($6,069,452)	($6,065,863)	($5,673,201)	($5,669,116)
Consolidated Net Income	$3,921,020	$4,275,680	$7,728,653	$8,382,522	$9,708,274	$10,247,648	$9,980,097	$4,757,388	($3,139,251)	$ 156,746	$ 539,526	$ 7,748,953	$ 9,727,529
Preferred Dividend Requirements 1/	2,285,107	3,700,013	4,017,155	4,177,432	4,309,547	4,904,382	5,899,590	5,912,346	5,829,278	5,670,066	5,670,066	5,670,066	5,670,066
Balance of Consolidated Net Income	$1,635,913	$2,575,669	$3,711,498	$4,205,128	$5,398,727	$ 5,343,266	$4,080,507	($11,657,734)	($8,967,529)	($5,513,320)	($5,130,540)	$ 2,078,887	$ 4,057,463
Dividends Declared													
First Preferred Stock	$1,676,881	$2,923,025	$3,242,318	$3,402,271	$3,528,567	$ 4,119,773	$5,114,981	$4,373,978	—	—	—	—	—
Second Preferred Stock	608,226	776,988	774,837	775,161	780,980	784,609	784,609	780,609	—	—	—	—	—
Common Stock	—	—	—	1,760,883	1,788,859	1,887,277	1,887,277	889,177	—	—	—	—	—
Preferred Dividend Arrearages at December 31													
First Preferred Stock	—	—	—	—	—	—	—	$ 857,271	$5,988,996	$11,118,978	$16,250,616	$21,382,414	$26,513,799
Second Preferred Stock	—	—	—	—	—	—	—	156,724	1,019,341	1,482,341	1,777,813	2,316,081	2,778,977
Total	—	—	—	—	—	—	—	$1,013,995	$7,008,337	$12,601,319	$18,028,429	$23,698,495	$29,292,776
Market Range of Preferred and Common Stocks and Option Warrants of Electric													
$7 Preferred Stock	99 7/8 to 94 7/8	89 1/2 to 90 1/4	96 to 109	105 to 110 1/8	96 to 109 1/4	99 to 113	61 to 108 1/8	30 3/4 to 64	7 1/2 to 36 1/2	6 5/8 to 21	3 to 14 3/8	32 3/4 to 84 1/4	37 to 92 1/4
$6 Preferred Stock	—	—	—	—	—	84 3/4 to 102	32 to 98 1/2	8 7/8 to 53 1/2	6 1/2 to 33 3/4	6 to 19 3/4	2 1/2 to 14 3/8	28 1/2 to 87 1/8	34 to 87
$7 Second Preferred Stock	—	85 1/2 to 91 1/4	89 1/2 to 104 1/2	99 3/4 to 108	94 1/2 to 109	88 to 107	45 to 101	6 1/2 to 43	4 1/8 to 20	3 3/4 to 22 1/8	2 3/4 to 20	18 1/2 to 80 1/2	22 to 80
Common Stock	17 3/8 to 40 1/8	35 1/4 to 34 1/2	26 1/2 to 38 3/8	28 3/4 to 49 3/8	28 1/8 to 85 5/8	34 3/8 to 103 1/2	9 to 50 3/4	2 3/4 to 16	3 1/8 to 16 3/8	2 1/4 to 9 5/8	1 1/8 to 7 1/2	6 3/8 to 26 7/8	6 1/8 to 26 5/8
Option Warrants	—	3 1/2 to 8	6 5/8 to 15	13 1/8 to 30 7/8	10 1/8 to 61 3/4	15 1/2 to 78 1/8	3 1/2 to 37 7/8	1 1/8 to 7 7/8	1 1/2 to 9 1/2	1 to 4 3/4	1/2 to 3 1/2	2 to 13 1/4	2 1/2 to 14

1/ Preferred dividend requirements for years 1925 to 1941, inclusive, are based on number of shares of preferred stock outstanding at end of year.

( ) Indicates red figure.



[Document No. 93.]

Securities and Exchange Commission
Philadelphia

In the Matter of
Electric Bond and Share Company,
American Power & Light Company,
Pacific Power & Light Company,
Electric Power & Light Corporation,
Utah Power & Light Company,
National Power & Light Company,
Ebasco Services Incorporated,
Respondents.

File No. 59-12

PETITION FOR RE-HEARING ON BEHALF OF ELECTRIC POWER & LIGHT CORPORATION.

[Received for Filing, August 27, 1942.]

Electric Power & Light Corporation ("Electric"), one of the respondents in the above proceedings, respectfully moves the Securities and Exchange Commission ("Commission"), in accordance with Paragraph (d) of Rule XII of the Rules of Practice of said Commission, for a re-hearing of the matters decided in its opinion and findings made herein on, to wit, the twenty-second day of August, 1942, upon which its order of dissolution of Electric, made and entered on said date, is based, and to vacate and set aside said order of dissolution on the following grounds:

1. The Commission erred in overruling and denying Electric's motion to dismiss the Commission's notice of and order for hearing and the proceedings thereunder made at the conclusion of the Commission's case and renewed at the conclusion of the hearing, for each and every reason stated in said motion.

2. The Commission erred in denying the motion of respondent Electric to consolidate the application by Electric for approval of a certain Section 11(e) Plan filed by it on December 4, 1941, which said motion for consolidation was filed with the Commission on December 6, 1941.

3. The Commission erred in its finding and conclusion that the corporate structure and continued existence of Electric unduly and unnecessarily complicates the structure of Electric Bond and Share Company holding company system, and unfairly and inequitably distributes voting power among the security holders of such system.

4. The Commission erred in its finding and conclusion that to effect the requirements of Section 11(b)(2) of the Public Utility Holding Company Act of 1935 it is necessary that Electric be dissolved.

5. The Commission erred in holding that the Plan filed by Electric under Section 11(e) of said Act is defective and not entitled to consideration prior to the entry of an order of dissolution.

The matters herein stated as grounds for re-hearing, and respondents' contentions with respect thereto, have been fully stated in the record and are dealt with by the Commission in its said findings and opinion.

Respectfully submitted,

SIMPSON THACHER & BARTLETT,
by JOHN F. MACLANE,

REID & PRIEST,
by FRANK A. REID,

WRIGHT, GORDON, ZACHEY, PARLIN & CAHILL,
by BOYKIN C. WRIGHT,
Counsel for ELECTRIC POWER & LIGHT CORPORATION.

August 27, 1942.

[Document No. 94]

Securities and Exchange Commission
Philadelphia.

In the Matter of
Electric Bond and Share Company,
American Power & Light Company,
Pacific Power & Light Company,
Electric Power & Light Corporation,
Utah Power & Light Company,
National Power & Light Company,
Ebasco Services Incorporated,
Respondents.

File No. 59-12

PETITION FOR RE-HEARING ON BEHALF OF AMERICAN POWER & LIGHT COMPANY.

[Received for Filing August 27, 1942].

American Power & Light Company ("American"), one of the respondents in the above proceedings, respectfully moves the Securities and Exchange Commission ("Commission"), in accordance with Paragraph (d) of Rule XII of the Rules of Practice of said Commission, for a rehearing of the matters decided in its opinion and findings made herein on, to wit, the twenty-second day of August, 1942, upon which its order of dissolution of American, made and entered on said date, is based, and to vacate and set aside said order of dissolution on the following grounds:

1. The Commission erred in overruling and denying American's motion to dismiss the Commission's notice of and order for hearing and the proceedings thereunder made at the conclusion of the Commission's case and renewed at the conclusion of the hearing, for each and every reason stated in said motion.

2. The Commission erred in sustaining the ruling of the Trial Examiner excluding testimony offered by American, and in rejecting offers of proof in support thereof, with respect to the valuation of assets of respondent American, both as bearing on the issues in the pending proceeding and as bearing on the plan of reorganization filed by American.

3. The Commission erred in denying the motion of respondent American to consolidate the application by American for approval of a certain Section 11(e) Plan filed by it on July 23, 1941, which said motion for consolidation was filed with the Commission on December 6, 1941.

4. The Commission erred in its finding and conclusion that the corporate structure and continued existence of American unduly and unnecessarily complicates the structure of Electric Bond and Share Company holding company system, and unfairly and inequitably distributes voting power among the security holders of such system.

5. The Commission erred in its finding and conclusion that to effect the requirements of Section 11(b)(2) of the Public Utility Holding Company Act of 1935 it is necessary that American be dissolved.

6. The Commission erred in holding that the Plan filed by American under Section 11(e) of said Act is defective and not entitled to consideration prior to the entry of an order of dissolution.

The matters herein stated as grounds for rehearing, and respondent's contentions with respect thereto, have been fully stated in the record and are dealt with by the Commission in its said findings and opinion.

Respectfully submitted,

SIMPSON THACHER & BARTLETT,

by JOHN F. MACLANE,

REID & PRIEST,
by FRANK A. REID,
Counsel for AMERICAN POWER & LIGHT COMPANY.

August 27, 1942.

[DOCUMENT No. 95.]

UNITED STATES OF AMERICA

Before the Securities and Exchange Commission

At a regular session of the Securities and Exchange Commission, held at its office in the City of Philadelphia, Pennsylvania on the 28th day of August, A. D., 1942.

Reg. No. Docket Unit 509090, 509091.
Reg No. Docket Unit 509186-509190 incl.

In the Matter of
Electric Bond and Share Company,
American Power & Light Company,
Pacific Power & Light Company,
Electric Power & Light Corporation,
Utah Power & Light Company,
National Power & Light Company,
Ebasco Services Incorporated,
Respondents.

File No. 59-12

Public Utility Holding Company Act of 1935—Section 11(b) (2).

ORDER DENYING PETITION OF AMERICAN POWER & LIGHT COMPANY TO VACATE AND SET ASIDE THE COMMISSION'S ORDER DATED AUGUST 22, 1942 AND FOR REHEARING.

August 28, 1942.

The Commission having on August 22, 1942 made and filed its findings and opinion in the within proceeding and

having on August 22, 1942 issued its order requiring the dissolution of American Power & Light Company and denying motions made by American Power & Light Company to dismiss the notice of and order for hearing in the within proceeding and to dismiss the proceeding itself, and to consolidate with the within proceeding a certain "application for approval of Plan under Section 11(e) of the Public Utility Holding Company Act of 1935," and certain other motions;

American Power & Light Company having filed on August 27, 1942 a petition for rehearing with respect to certain findings of the Commission set forth in the aforementioned findings and opinion, and with respect to the rulings thereon contained in the aforementioned order of the Commission dated August 22, 1942, and having petitioned to vacate and set aside such order;

Said petition reciting that "the grounds for rehearing, and respondents' contentions with respect thereto have been fully stated in the record and are dealt with by the Commission in its said findings and opinion";

It is ordered that the petition of American Power & Light Company dated August 27, 1942 to vacate and set aside the Commission's order dated August 22, 1942, and for a rehearing with respect to the findings and rulings of the Commission, be, and the same hereby is, denied.

By the Commission.

[SEAL] ORVAL L. DuBOIS, *Secretary.*

[Document No. 96]

UNITED STATES OF AMERICA

Before the Securities and Exchange Commission

At a regular session of the Securities and Exchange Commission, held at its office in the City of Philadelphia, Pennsylvania, on the 28th day of August, A. D., 1942.

In the Matter of

Electric Bond and Share Company,
American Power & Light Company,
Pacific Power & Light Company,
Electric Power & Light Corporation,
Utah Power & Light Company,
National Power & Light Company,
Ebasco Services Incorporated,
Respondents.

File No. 59-12

Public Utility Holding Company Act of 1935—Section 11(b) (2).

ORDER DENYING PETITION OF ELECTRIC POWER & LIGHT CORPORATION TO VACATE AND SET ASIDE THE COMMISSION'S ORDER DATED AUGUST 22, 1942, AND FOR REHEARING.

August 28, 1942.

The Commission having on August 22, 1942 made and filed its findings and opinion in the within proceeding and having on August 22, 1942 issued its order requiring the dissolution of Electric Power & Light Corporation and denying motions made by Electric Power & Light Corporation to dismiss the notice of and order for hearing in the within proceeding and to dismiss the proceeding itself, and to consolidate with the within proceeding a certain

"application for approval of Plan under Section 11(e) of the Public Utility Holding Company Act of 1935," and certain other motions;

Electric Power & Light Corporation having filed on August 27, 1942 a petition for rehearing with respect to certain findings of the Commission set forth in the aforementioned findings and opinion, and with respect to the rulings thereon contained in the aforementioned order of the Commission dated August 22, 1942, and having petitioned to vacate and set aside such order;

Said petition reciting that "the grounds for rehearing, and respondents' contentions with respect thereto have been fully stated in the record and are dealt with by the Commission in its said findings and opinion";

It is ordered that the petition of Electric Power & Light Corporation dated August 27, 1942 to vacate and set aside the Commission's order dated August 22, 1942, and for a rehearing with respect to the findings and rulings of the Commission, be, and the same hereby is, denied.

By the Commission.

[SEAL] ORVAL L. DuBOIS, *Secretary.*